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

FOR THE YEAR ENDED 30 SEPTEMBER 2022
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ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2022

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

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2022 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
11 November 2022

Antonia Watson
Executive Director
11 November 2022

GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

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

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

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

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

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

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

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

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.

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FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2022 NZ$m	2021 NZ$m
Interest income		5,811	4,600
Interest expense		(2,035)	(1,176)
Net interest income	2	3,776	3,424
Other operating income	2	1,087	765
Operating income		4,863	4,189
Operating expenses	3	(1,653)	(1,621)
Profit before credit impairment and income tax		3,210	2,568
Credit impairment release / (charge)	12	(39)	114
Profit before income tax		3,171	2,682
Income tax expense	4	(882)	(743)
Profit for the year		2,289	1,939

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2022 NZ$m	2021 NZ$m
Profit for the year	2,289	1,939
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain on defined benefit schemes	10	56
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(3)	(75)
Realised losses / (gains) transferred to the income statement	(28)	8
Income tax attributable to the above items	6	3
Other comprehensive income after tax	(15)	(8)
Total comprehensive income for the year	2,274	1,931

The notes appearing on pages 8 to 67 form an integral part of these financial statements

BALANCE SHEET

As at 30 September	Note	2022 NZ$m	2021 NZ$m
Assets			
Cash and cash equivalents	7	12,575	7,844
Settlement balances receivable		785	237
Collateral paid		1,672	537
Trading securities	8	7,228	9,585
Derivative financial instruments	9	15,481	9,304
Investment securities	10	11,357	11,926
Net loans and advances	11	147,067	140,756
Deferred tax assets	4	362	390
Goodwill and other intangible assets	19	3,099	3,091
Premises and equipment		450	509
Other assets		1,058	590
Total assets		201,134	184,769
Liabilities			
Settlement balances payable		4,933	2,704
Collateral received		1,962	738
Deposits and other borrowings	13	139,642	133,139
Derivative financial instruments	9	13,785	7,727
Current tax liabilities		310	170
Payables and other liabilities		1,345	1,464
Employee entitlements		128	138
Other provisions	20	222	295
Debt issuances	14	21,023	21,502
Total liabilities		183,350	167,877
Net assets		17,784	16,892
Shareholders' equity			
Share capital	21	12,438	11,888
Reserves	21	48	70
Retained earnings	21	5,298	4,934
Total shareholders' equity	21	17,784	16,892

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
11 November 2022

Antonia Watson
Executive Director
11 November 2022

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FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	2022 NZ$m	2021 NZ$m
Profit after income tax	2,289	1,939
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation and amortisation	125	124
Loss on sale and impairment of premises and equipment	4	7
Net derivatives/foreign exchange adjustment	633	(940)
Other non-cash movements	(42)	151
Net (increase)/decrease in operating assets:		
Collateral paid	(1,135)	857
Trading securities	2,357	3,212
Net loans and advances	(6,311)	(8,058)
Other assets	(988)	113
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings (excluding items included in financing activities)	5,003	6,778
Settlement balances payable	2,229	(246)
Collateral received	1,224	(537)
Other liabilities	(29)	205
Total adjustments	3,070	1,666
Net cash flows from operating activities[1]	5,359	3,605
Cash flows from investing activities		
Investment securities:		
Purchases	(3,898)	(5,528)
Proceeds from sale or maturity	3,839	2,833
Other assets	(65)	(39)
Net cash flows from investing activities	(124)	(2,734)
Cash flows from financing activities		
Deposits and other borrowings[2]	1,500	1,300
Debt issuances:[3]		
Issue proceeds	3,452	3,278
Redemptions	(4,028)	(4,899)
Proceeds from issue of preference shares	542	-
Repayment of lease liabilities	(46)	(46)
Dividends paid	(1,924)	(908)
Net cash flows from financing activities	(504)	(1,275)
Net change in cash and cash equivalents	4,731	(404)
Cash and cash equivalents at beginning of year	7,844	8,248
Cash and cash equivalents at end of year	12,575	7,844

1 Net cash provided by operating activities includes income taxes paid of NZ$708 million (2021: NZ$884 million).

2 Movement in deposits and other borrowings includes repurchase transactions entered into with RBNZ under the Funding for Lending Programme of NZ$1,500 million (2021: NZ$1,000 million under the Funding for Lending Programme and NZ$300 million under the Term Lending Facility).

3 Movement in debt issuances (Note 14 debt issuances) also includes a NZ$1,631 million increase (2021: NZ$958 million decrease) from the effect of foreign exchange rates, a NZ$1,550 million decrease (2021: NZ$398 million decrease) from changes in fair value hedging instruments and a NZ$16 million increase (2021: NZ$40 million increase) from other changes.

The notes appearing on pages 8 to 67 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Share capital NZ$m	Reserves NZ$m	Retained earnings NZ$m	Total shareholders' equity NZ$m
As at 1 October 2020	11,888	118	3,863	15,869
Profit for the year	-	-	1,939	1,939
Other comprehensive income for the year	-	(48)	40	(8)
Total comprehensive income for the year	-	(48)	1,979	1,931
Transactions with equity holders in their capacity as equity owners:				
Ordinary dividends paid	-	-	(900)	(900)
Preference dividends paid	-	-	(8)	(8)
As at 30 September 2021	11,888	70	4,934	16,892
Profit for the year	-	-	2,289	2,289
Other comprehensive income for the year	-	(22)	7	(15)
Total comprehensive income for the year	-	(22)	2,296	2,274
Transactions with equity holders in their capacity as equity owners:				
Ordinary dividends paid	-	-	(1,915)	(1,915)
Preference shares issued (net of issue costs)	550	-	(8)	542
Preference dividends paid	-	-	(9)	(9)
As at 30 September 2022	12,438	48	5,298	17,784

The notes appearing on pages 8 to 67 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') for the year ended 30 September 2022. The Bank is incorporated and domiciled in New Zealand. The address of the Bank's registered office and its principal place of business is ANZ Centre, 23-29 Albert Street, Auckland, New Zealand.

On 11 November 2022, the Directors resolved to authorise the issue of these financial statements.

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

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

This section of the financial statements:

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

BASIS OF PREPARATION

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

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

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

BASIS OF MEASUREMENT

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

- derivative financial instruments;
- financial instruments measured at fair value through other comprehensive income (FVOCI); and
- financial instruments measured at fair value through profit and loss.

BASIS OF CONSOLIDATION

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

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

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

We measure translation differences on non-monetary items at fair value through profit or loss and report them as part of the fair value gain or loss on these items. For non-monetary items classified as investment securities measured at FVOCI, translation differences are included in other comprehensive income.

FIDUCIARY ACTIVITIES

The Banking Group provides fiduciary services to third parties including custody, nominee and trustee services. This involves the Banking Group holding assets on behalf of third parties and making decisions regarding the purchase and sale of financial instruments. If the Banking Group is not the beneficial owner or does not control the assets, then we do not recognise these transactions in these financial statements, except when required by accounting standards or another legislative requirement.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

Whilst the course of the COVID-19 pandemic is moderating and the management of its impact on the populace, businesses and economic activity is better understood, the responses of consumers, business and governments remain uncertain. Compounding the effects of the pandemic are mounting geopolitical tensions, global supply chain disruptions, the conflict in Ukraine, commodity price pressures, and increasing inflation and interest rates impacting the economy. Thus, there remains an elevated level of estimation uncertainty involved in the preparation of these financial statements.

The Banking Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions at 30 September 2022 about future events considered reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of these differences may significantly impact accounting estimates included in these financial statements. The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and recoverable amounts of non-financial assets.

The impact of these uncertainties on each of these accounting estimates is discussed further in the relevant notes of these financial statements. Readers should consider these disclosures in light of the inherent uncertainties described above.

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs) have played a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and in the valuation of financial instruments. The IBOR reforms have a wide-ranging impact for the Banking Group and our customers given the fundamental differences between IBORs and risk-free rates (RFRs). The key difference between IBORs and RFRs is that IBOR rates include a term and bank credit risk premium, whereas RFRs do not. As a result of these differences, adjustments are required to an RFR to ensure contracts referencing an IBOR rate transition on an economically comparable basis.

Update on the Banking Group's approach to interest rate benchmark reform
In line with the regulatory announcements made in 2021, the majority of IBOR rates, including Pound Sterling (GBP), Euro (EUR), Swiss Franc (CHF), Japanese Yen (JPY), and the US Dollar (USD) 1-week and 2-month LIBOR rate settings ceased on 31 December 2021 and have been replaced by alternative RFRs. This transition had an immaterial impact to the Banking Group's profit and loss. Through its loan and derivative transactions with customers, issuance of debt and its asset and liability management activities the Banking Group continues to have exposure to the remaining US dollar LIBOR settings and other IBOR-related benchmarks that are due to largely cease by 30 June 2023.

The Banking Group continues to manage the transition from the remaining US dollar LIBOR tenors and other remaining IBOR settings to RFRs through a Benchmark Transition Programme (the programme). The programme is responsible for managing the risks associated with the transition including operational, market, legal, conduct and financial reporting risks that may arise.

Exposures subject to benchmark reform as at 30 September 2022
The table below shows the Banking Group's exposures to interest rate benchmarks subject to IBOR reform. These are financial instruments that contractually reference an IBOR benchmark planned to transition to an RFR, and have a contractual maturity date beyond the planned IBOR cessation date.

As at 30 September 2022	US dollar LIBOR NZ$m
Loan and advances[1]	39
Derivative asset (notional value)[2]	72,878
Derivative liability (notional value)[2]	72,059
Loan commitments[1,3]	169

1 Excludes expected credit losses (ECL).
2 For cross-currency swaps, where both the receive and pay legs are in currencies subject to reform, the Banking Group discloses the New Zealand dollar-equivalent notional amounts for both. Where one leg of a swap is subject to reform, the Banking Group discloses the notional amount of the receive leg.
3 For multi-currency IBOR referenced facilities, the undrawn balance has been allocated to the pricing currency of the facility or where there are multiple pricing currencies impacted by cessation, the most likely currency of drawdown.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

Hedge accounting exposures subject to IBOR reform

The Banking Group has hedge-accounted relationships referencing US dollar LIBOR, primarily due to the Banking Group's fixed rate debt issuances denominated in US dollars that are designated in fair value hedge accounting relationships. The table below details the carrying values of the Banking Group's US dollar exposures designated in hedge accounting relationships referencing LIBOR that will be impacted by reform. The nominal value of the associated hedging instruments is also included:

Hedged items	As at 30 September 2022 NZ$m
Debt issuances	6,950

Hedging instruments	Notional designated up to 30 June 2023 NZ$m	Notional designated beyond 30 June 2023 NZ$m	Total notional amount NZ$m
Fair value hedges	1,312	6,210	7,522

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

There were no new accounting standards or interpretations adopted in 2022 that had a significant effect on the Banking Group. Accounting policies have been consistently applied unless otherwise noted.

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 2022, and have not been applied by the Banking Group in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

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

DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION

Amendments to New Zealand Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction amends NZ IAS 12 *Income Taxes* and clarifies that entities are required to recognise deferred tax on transactions for which there is both an asset and a liability and that give rise to equal taxable and deductible temporary differences. This may include transactions such as leases and decommissioning or restoration obligations. This amendment is effective for the Banking Group from 1 October 2023 and is not expected to have a significant impact.

2. OPERATING INCOME

	2022 NZ$m	2021 NZ$m
Net interest income		
Interest income by type of financial asset		
Financial assets at amortised cost	5,489	4,355
Trading securities	149	106
Investment securities	173	139
Interest income	5,811	4,600
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(1,927)	(1,148)
Financial liabilities designated at fair value through profit or loss	(108)	(28)
Interest expense	(2,035)	(1,176)
Net interest income	3,776	3,424
Other operating income		
(i) Fee and commission income		
Lending fees	25	30
Non-lending fees	731	678
Commissions	32	35
Funds management income	253	271
Fee and commission income	1,041	1,014
Fee and commission expense	(502)	(459)
Net fee and commission income	539	555
(ii) Other income		
Net foreign exchange earnings and other financial instruments income[1]	525	179
Loss on sale of mortgages to the NZ Branch	(2)	-
Sale of legacy insurance portfolio[2]	-	14
Release of provisions for UDC Finance Ltd and Paymark Ltd disposal costs	14	-
Other	11	17
Other income	548	210
Other operating income	1,087	765
Operating income	4,863	4,189

1 Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit or loss.

2 The Bank sold and transferred its rights and obligations relating to servicing a legacy portfolio of insurance underwritten by Tower Limited (Tower) to Tower in March 2021.

NOTES TO THE FINANCIAL STATEMENTS

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest income and expense

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

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

OTHER OPERATING INCOME

Fee and commission income

We recognise fee and commission revenue arising from contracts with customers (a) over time when the performance obligation is satisfied across more than one reporting period or (b) at a point in time when the performance obligation is satisfied immediately or is satisfied within one reporting period.

- lending fees exclude fees treated as part of the effective yield calculation of interest income. Lending fees include certain guarantee and commitment fees where the loan or guarantee is not likely to be drawn upon, and other fees charged for providing customers a distinct good or service that are recognised separately from the underlying lending product.
- non-lending fees include fees associated with deposit and credit card accounts, interchange fees and fees charged for specific customer transactions such as international money transfers. Where the Banking Group provides multiple goods or services to a customer under the same contract, the Banking Group allocates the transaction price of the contract to distinct performance obligations based on the relative stand-alone selling price of each performance obligation. Revenue is recognised as each performance obligation is satisfied.
- commissions represent fees from third parties where we act as an agent by arranging a third party (such as an insurance provider) to provide goods and services to a customer. In such cases, we are not primarily responsible for providing the underlying good or service to the customer. If the Banking Group collects funds on behalf of a third party when acting as an agent, we only recognise the net commission it retains as revenue. When the commission is variable based on factors outside our control (such as a trail commission), revenue is only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.
- funds management income represents fees earned from customers for providing financial advice and fees for asset management services and advice provided to investment funds. Revenue is recognised either at the point the financial advice is provided or over the period in which the asset management services are delivered.

Net foreign exchange earnings and other financial instruments income

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

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

3. OPERATING EXPENSES

	2022 NZ$m	2021 NZ$m
Personnel		
Salaries and related costs	947	891
Superannuation costs	30	29
Other	19	15
Personnel	996	935
Premises		
Rent	16	18
Depreciation	81	79
Other	38	37
Premises	135	134
Technology		
Depreciation and amortisation	44	45
Subscription licences and outsourced services	157	140
Other	27	36
Technology	228	221
Other		
Advertising and public relations	37	43
Professional fees	64	58
Freight, stationery, postage and communication	41	42
Charges from the Overseas Banking Group	107	120
Other	45	68
Other	294	331
Operating expenses	1,653	1,621

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

Wages and salaries, annual leave, and other employee entitlements expected to be paid or settled within twelve months of employees rendering service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled. We accrue employee entitlements relating to long service leave using an actuarial calculation. It includes assumptions regarding staff departures, leave utilisation and future salary increases. The result is then discounted using market yields at the reporting date. The market yields are determined from a blended rate of government bonds with terms to maturity that closely match the estimated future cash outflows.

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

NOTES TO THE FINANCIAL STATEMENTS

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:

	2022 NZ$m	2021 NZ$m
Profit before income tax	3,171	2,682
Prima facie income tax expense at 28%	888	751
Tax effect of permanent differences:		
Sale of legacy insurance portfolio	-	(4)
Tax provisions no longer required	(3)	(3)
Non-assessable income and non-deductible expenditure	(3)	3
Subtotal	882	747
Income tax over provided in previous years	-	(4)
Income tax expense	882	743
Current tax expense	925	770
Adjustments recognised in the current year in relation to the current tax of prior years	(64)	(4)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	21	(23)
Income tax expense	882	743
Effective tax rate	27.8%	27.7%

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 when the tax relates to items recognised directly in equity and other comprehensive income, in which case we recognise the tax 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 substantively 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.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total dividend NZ$m
Financial Year 2021		
Dividend paid in June 2021	14.2 cents	900
Dividends paid during the year ended 30 September 2021		900
Financial Year 2022		
Dividend paid in March 2022	14.2 cents	900
Dividend paid in September 2022	16.0 cents	1,015
Dividends paid during the year ended 30 September 2022		1,915

IMPUTATION CREDIT ACCOUNT

	Banking Group		Bank[1]	
	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
Imputation credits available as at 30 September	8,106	7,221	8,106	7,221
Effect of changes to imputation groups	-	-	(7,672)	-
Imputation credits available as at 1 October	8,106	7,221	434	7,221

1 Imputation credits available to the Bank are shown separately as this is relevant for holders of perpetual preference shares (PPS, refer to Note 21 shareholders' equity) issued by the Bank.

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

The Bank, including other entities in the same income tax consolidated group as the Bank (Bank consolidated imputation group) exited the New Zealand resident imputation group from 1 October 2022. The imputation credit balance available to the Bank consolidated imputation group includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

6. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

The Banking Group is organised into three major business segments for segment reporting purposes - Personal, Business 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 2021, the Banking Group reorganised into the following business segments: Personal (comprising the Personal and Funds Management business units), Business, and Institutional. These are intended to better align the Banking Group's internal business with the needs of its primary customer groups, home owners and business owners. These changes were implemented from August 2021 and have been accounted for prospectively. During the year ended 30 September 2022, there were net movements of approximately NZ$2.1 billion of loans and advances and NZ$1.6 billion of customer deposits from Business to Personal. Comparative amounts have not been restated because the overall impact on the financial performance and financial position of the affected segments, Personal and Business, is not considered material.

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

Business
Business provides a full range of banking services including small business banking, through our digital, branch and contact centre channels, and traditional relationship banking and sophisticated financial solutions through dedicated managers. These cover privately owned small, medium and large enterprises, the agricultural business segment, government and government related entities.

Institutional
The Institutional division services governments, global institutional and corporate customers via the following business units:

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

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

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

	Personal		Business		Institutional		Other		Total	
For the year ended 30 September	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
Net interest income	2,210	1,990	1,206	1,064	308	333	52	37	3,776	3,424
Net fee and commission income										
- Lending fees	7	9	1	3	17	18	-	-	25	30
- Non-lending fees	426	612	249	10	56	56	-	-	731	678
- Commissions	31	34	-	-	1	1	-	-	32	35
- Funds management income	253	271	-	-	-	-	-	-	253	271
- Fee and commission expense	(306)	(459)	(196)	-	-	-	-	-	(502)	(459)
Net fee and commission income	411	467	54	13	74	75	-	-	539	555
Other income	3	19	(1)	-	185	160	361	31	548	210
Other operating income	414	486	53	13	259	235	361	31	1,087	765
Operating income	2,624	2,476	1,259	1,077	567	568	413	68	4,863	4,189
Operating expenses	(1,165)	(1,147)	(263)	(262)	(193)	(185)	(32)	(27)	(1,653)	(1,621)
Profit before credit impairment and income tax	1,459	1,329	996	815	374	383	381	41	3,210	2,568
Credit impairment release / (charge)	(74)	18	35	62	-	34	-	-	(39)	114
Profit before income tax	1,385	1,347	1,031	877	374	417	381	41	3,171	2,682
Income tax expense	(388)	(373)	(289)	(246)	(105)	(117)	(100)	(7)	(882)	(743)
Profit after income tax	997	974	742	631	269	300	281	34	2,289	1,939
Financial position										
Goodwill	1,042	1,042	895	895	1,069	1,069	-	-	3,006	3,006
Net loans and advances	102,709	95,061	37,431	39,158	6,927	6,535	-	2	147,067	140,756
Customer deposits	85,391	78,592	22,566	23,744	22,373	22,793	-	-	130,330	125,129

OTHER SEGMENT

The Other segment profit after income tax comprises:

For the year ended 30 September	2022 NZ$m	2021 NZ$m
Personal and Business central functions	22	(2)
Group Centre	47	20
Economic hedges	212	16
Total	281	34

FINANCIAL ASSETS

Outlined below is a description of how we classify and measure financial assets as they apply to subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial assets - general

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

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

The resultant financial asset classifications are as follows:

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

Fair value option for financial assets

A financial asset may be irrevocably designated on initial recognition:

- at FVTPL when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- at FVOCI for investments in equity securities, where that instrument is neither held for trading nor contingent consideration recognised by an acquirer in a business combination.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and other balances, as outlined below, that are convertible into cash with an insignificant risk of changes in value and with remaining maturities of three months or less, including reverse repurchase agreements.

	2022 NZ$m	2021 NZ$m
Coins, notes and cash at bank	154	163
Securities purchased under agreements to resell in less than 3 months	1,248	610
Balances with central banks	9,980	6,697
Settlement balances receivable within 3 months	1,193	374
Cash and cash equivalents	12,575	7,844

NOTES TO THE FINANCIAL STATEMENTS

8. TRADING SECURITIES

	2022 NZ$m	2021 NZ$m
Government securities	6,051	7,985
Corporate and financial institution securities	1,177	1,600
Trading securities	7,228	9,585

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 change in fair value recognised in profit or loss.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to determine 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.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value	Assets 2022 NZ$m	Liabilities 2022 NZ$m	Assets 2021 NZ$m	Liabilities 2021 NZ$m
Derivative financial instruments - held for trading	14,117	(11,948)	8,504	(7,001)
Derivative financial instruments - designated in hedging relationships	1,364	(1,837)	800	(726)
Derivative financial instruments	15,481	(13,785)	9,304	(7,727)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

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

Trading	Derivatives held in order to: • meet customer needs for managing their own risks. • manage risks in the Banking Group that are not in a designated hedge accounting relationship (some elements of balance sheet management). • 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 in underlying positions relating to: • hedges of the Banking Group's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

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

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

RISKS MANAGED

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

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

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Banking Group uses central clearing counterparties and exchanges to settle derivative transactions. Different arrangements for posting of collateral exist with these exchanges:

- some transactions are subject to clearing arrangements which result in separate recognition of collateral assets and liabilities, with the carrying values of the associated derivative assets and liabilities held at their fair value.
- other transactions are legally settled by the payment or receipt of collateral which reduces the carrying values of the related derivative instruments by the amount paid or received.

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

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

Fair value	Assets 2022 NZ$m	Liabilities 2022 NZ$m	Assets 2021 NZ$m	Liabilities 2021 NZ$m
Interest rate contracts				
Forward rate agreements	6	(2)	1	(1)
Futures contracts	109	(8)	19	(5)
Swap agreements	1,174	(1,038)	4,465	(3,368)
Options purchased	-	-	1	-
Options sold	-	(12)	-	-
Total	1,289	(1,060)	4,486	(3,374)
Foreign exchange contracts				
Spot and forward contracts	5,832	(4,028)	2,217	(1,862)
Swap agreements	6,825	(6,701)	1,762	(1,716)
Options purchased	126	(10)	24	(2)
Options sold	10	(115)	2	(23)
Total	12,793	(10,854)	4,005	(3,603)
Commodity contracts and credit default swaps	35	(34)	13	(24)
Derivative financial instruments - held for trading	14,117	(11,948)	8,504	(7,001)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group uses two types of hedge accounting relationships:

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

Under the policy choice provided by NZ IFRS 9, the Banking Group has continued to apply the hedge accounting requirements of NZ IAS 39.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	2022			2021		
	Nominal amount NZ$m	Assets NZ$m	Liabilities NZ$m	Nominal amount NZ$m	Assets NZ$m	Liabilities NZ$m
Fair value hedges						
Interest rate swap agreements	29,725	920	(1,381)	28,024	572	(512)
Cash flow hedges						
Interest rate swap agreements	34,202	444	(456)	27,820	228	(214)
Derivative financial instruments - designated in hedging relationships	63,927	1,364	(1,837)	55,844	800	(726)

The maturity profile of the nominal amounts of our hedging instruments held is:

Nominal amount	Average interest rate	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
As at 30 September 2022						
Fair value hedges						
Interest rate	1.53%	-	2,600	14,315	12,810	29,725
Cash flow hedges						
Interest rate	2.26%	1,826	7,454	24,079	843	34,202
As at 30 September 2021						
Fair value hedges						
Interest rate	1.47%	247	3,556	13,718	10,503	28,024
Cash flow hedges						
Interest rate	1.51%	2,585	5,226	18,981	1,028	27,820

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

	Ineffectiveness						Amount reclassified from the cash flow hedge reserve to profit and loss	
	Change in value of hedging instrument[2]		Change in value of hedged item		Hedge ineffectiveness recognised in profit and loss			
	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
Fair value hedges[1]								
Interest rate	(930)	295	929	(289)	(1)	6	-	-
Cash flow hedges[1]								
Interest rate	22	(153)	(23)	152	(1)	(1)	3	10

1 All instruments are classified as derivative financial instruments.
2 Changes in value of hedging instruments is before any adjustments for Settle to Market clearing arrangements.

Hedge ineffectiveness recognised is classified within other operating income. Amounts reclassified to profit or loss are recognised within net interest income or other operating income.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The hedged items in relation to the Banking Group's fair value hedges are:

	Balance sheet presentation	Hedged risk	Carrying amount Assets NZ$m	Carrying amount Liabilities NZ$m	Accumulated fair value hedge adjustments on the hedged item Assets NZ$m	Accumulated fair value hedge adjustments on the hedged item Liabilities NZ$m
As at 30 September 2022						
Fixed rate debt issuances	Debt issuances	Interest rate	-	(18,341)	-	1,305
Fixed rate investment securities at FVOCI[1]	Investment securities	Interest rate	11,506	-	(976)	-
Total			11,506	(18,341)	(976)	1,305
As at 30 September 2021						
Fixed rate debt issuances	Debt issuances	Interest rate	-	(16,307)	-	(245)
Fixed rate investment securities at FVOCI[1]	Investment securities	Interest rate	11,915	-	(361)	-
Total			11,915	(16,307)	(361)	(245)

1 The carrying amount of debt instruments at FVOCI does not include the fair value hedge adjustment since accounting for the hedge relationship results in the transfer of the hedge adjustment out of other comprehensive income to the income statement to match the profit or loss on the hedging instrument.

There is no cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the balance sheet as at 30 September 2022 (2021: NZ$2 million).

The hedged items in relation to the Banking Group's cash flow hedges are:

	Hedged risk	Continuing hedges 2022 NZ$m	Continuing hedges 2021 NZ$m	Discontinued hedges 2022 NZ$m	Discontinued hedges 2021 NZ$m
Floating rate loans and advances	Interest rate	(437)	48	-	(1)
Floating rate customer deposits	Interest rate	475	(36)	1	2

All cash flow hedges relate to hedges of interest rate risk and the movements in the cash flow hedge reserve are shown in the statement of changes in equity on page 7.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired. With respect to derivatives cleared through a central clearing counterparty or exchange, derivative assets or liabilities may be derecognised in accordance with the principle above when collateral is settled, depending on the legal arrangements in place for each instrument.
Impact on the income statement	The recognition of 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 in a hedging relationship, the recognition of gains or losses depends on the nature of the item being hedged. Refer to the table on page 20 for details of the recognition approach applied for each type of hedge accounting relationship. Sources of hedge ineffectiveness may arise from differences in the interest rate reference rate, margins, or rate set differences and differences in discounting between the hedged items and the hedging instruments.
Hedge effectiveness	To qualify for hedge accounting under NZ IAS 39, a hedge relationship is expected to be highly effective. A hedge relationship is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Banking Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

Judgement is required when we select the valuation techniques used to determine the fair value of derivatives, particularly the selection of valuation inputs that are not readily observable, and the application of valuation adjustments to certain derivatives. Refer to Note 16 fair value of financial assets and financial liabilities for further details.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENT SECURITIES

	2022 NZ$m	2021 NZ$m
Investment securities measured at fair value through other comprehensive income		
Debt securities	11,356	11,925
Equity securities	1	1
Total	11,357	11,926

The maturity profile of investment securities is as follows:

As at 30 September 2022	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	No maturity NZ$m	Total NZ$m
Government securities	115	1,430	7,103	2,274	-	10,922
Corporate and financial institution securities	3	69	362	-	-	434
Equity securities	-	-	-	-	1	1
Total	118	1,499	7,465	2,274	1	11,357
As at 30 September 2021						
Government securities	272	363	7,704	3,171	-	11,510
Corporate and financial institution securities	2	123	290	-	-	415
Equity securities	-	-	-	-	1	1
Total	274	486	7,994	3,171	1	11,926

RECOGNITION AND MEASUREMENT

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

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

Assets disclosed as investment securities are subject to the general classification and measurement policy for financial assets outlined on page 17. Additionally, expected credit losses associated with 'Investment securities - debt securities at fair value through other comprehensive income' are recognised and measured in accordance with the accounting policy outlined in Note 12 allowance for expected credit losses, and the allowance for expected credit loss is recognised in the FVOCI reserve in equity with a corresponding charge to profit or loss.

KEY JUDGEMENTS AND ESTIMATES

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

11. NET LOANS AND ADVANCES

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

	Note	2022 NZ$m	2021 NZ$m
Overdrafts		968	799
Credit cards		1,238	1,127
Term loans - housing		103,872	98,513
Term loans - non-housing		41,234	40,528
Subtotal		147,312	140,967
Unearned income		(32)	(29)
Capitalised brokerage and other origination costs		433	403
Gross loans and advances		147,713	141,341
Allowance for expected credit losses	12	(646)	(585)
Net loans and advances		147,067	140,756
Residual contractual maturity:			
Within one year		31,939	32,708
More than one year		115,128	108,048
Net loans and advances		147,067	140,756

The Banking Group has reviewed the historic accounting treatment of a transaction product arrangement comprised of both overdraft and deposit balances and concluded that, under NZ IAS 32 *Financial Instruments: Presentation*, the deposit amounts cannot be netted against the overdraft balances drawn under the arrangement. The application of netting reduced the amounts presented for overdrafts (above) and customer deposits (Note 13 deposits and other borrowings) by NZ$178 million as at 30 September 2021. Comparative amounts have not been restated as the impact is not considered material.

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$306 million as at 30 September 2022 (2021: NZ$318 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

RECOGNITION AND MEASUREMENT

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

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the issue of the loan or advance, which are primarily brokerage and other origination costs 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 allowance for expected credit losses.

The Banking Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Banking Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred, the Banking Group derecognises the asset. If the risks and rewards are partially retained and control over the asset is lost, then the Banking Group derecognises the asset. If control over the asset is not lost, then the Banking Group continues to recognise the asset to the extent of its continuing involvement.

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

Assets disclosed as net loans and advances are subject to the general classification and measurement policy for financial assets outlined on page 17. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policy outlined in Note 12 allowance for expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

	2022			2021		
	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
Net loans and advances at amortised cost	569	77	646	525	60	585
Off-balance sheet commitments	100	5	105	107	15	122
Total	669	82	751	632	75	707

The following tables present the movement in the allowance for expected credit losses (ECL).

Net loans and advances

Allowance for ECL is included in net loans and advances.

			Stage 3		
	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
As at 1 October 2020	162	347	79	106	694
Transfer between stages	16	(14)	(2)	-	-
New and increased provisions (net of collective provision releases)	(23)	(19)	(21)	67	4
Write-backs	-	-	-	(63)	(63)
Bad debts written-off (excluding recoveries)	-	-	-	(47)	(47)
Discount unwind reversal	-	-	-	(3)	(3)
As at 30 September 2021	155	314	56	60	585
Transfer between stages	18	(10)	(3)	(5)	-
New and increased provisions (net of collective provision releases)	26	7	6	87	126
Write-backs	-	-	-	(33)	(33)
Bad debts written-off (excluding recoveries)	-	-	-	(37)	(37)
Discount unwind reversal	-	-	-	5	5
As at 30 September 2022	199	311	59	77	646

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

Allowance for ECL is included in other provisions.

As at 1 October 2020	79	55	3	22	159
Transfer between stages	3	(4)	1	-	-
New and increased provisions (net of collective provision releases)	(18)	(12)	-	(7)	(37)
As at 30 September 2021	64	39	4	15	122
Transfer between stages	7	(6)	(1)	-	-
New and increased provisions (net of collective provision releases)	(5)	(2)	-	(10)	(17)
As at 30 September 2022	66	31	3	5	105

The collectively assessed allowance for ECL increased by NZ$37 million attributable to: increases of NZ$24 million for downside risks associated with the economic outlook, NZ$42 million due to portfolio credit risk profile changes reflecting the revised economic scenario weightings and enhanced model methodology, partially offset by reductions of NZ$8 million in lower management temporary adjustments and NZ$21 million in large exposure and model risk allowances.

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

	2022 NZ$m	2021 NZ$m
New and increased provisions		
- Collectively assessed	37	(93)
- Individually assessed	72	60
Write-backs	(33)	(63)
Recoveries of amounts previously written-off	(37)	(18)
Total credit impairment charge / (release)	39	(114)

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS MODEL

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

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

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

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

MEASUREMENT OF EXPECTED CREDIT LOSS

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

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

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

EXPECTED LIFE

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

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

For retail portfolios, the expected lifetime is determined using a behavioural term, taking into account expected prepayment behaviour and events that give rise to substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

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

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

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

MODIFIED FINANCIAL ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

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

i. Internal credit rating grade

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

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

For retail portfolios, a SICR is determined, depending on the type of facility, by either comparing the scenario weighted lifetime PD at the reporting date to that at origination, or by reference to customer behavioural score thresholds. The scenario weighted lifetime probability of default may increase significantly if:

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

ii. Backstop criteria

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

FORWARD-LOOKING INFORMATION

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

i. Base case scenario

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

ii. Upside and iii. Downside scenarios

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

iv. Severe downside scenario

To better reflect the current economic conditions and geopolitical environment, the Banking Group has altered the severe downside scenario in 2022 from a scenario fixed by reference to average economic cycle conditions to one which aligns with the scenario used for stress testing.

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

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

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

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Collectively assessed allowance for expected credit losses

In estimating collectively assessed ECL, the Banking Group makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs, and highlights significant changes during the current period.

The judgements and associated assumptions have been made within the context of the uncertainty of how various factors might impact the global economy, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. The Banking Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement / assumption	Description	Considerations for the year ended 30 September 2022
Determining when a SICR has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Banking Group monitors the effectiveness of SICR criteria on an ongoing basis.	The Banking Group has adjusted the ECL this period to account for expected deterioration in credit-worthiness of certain customer segments which are considered particularly vulnerable to economic pressures such as higher interest rates, increasing inflation and low wage growth.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The modelled outcome as at 30 September 2021 included a model adjustment to recognise increased model uncertainties as a result of COVID-19. With these uncertainties largely being appropriately reflected in the underlying models, the COVID-19 adjustments have been removed.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no material changes to the policies during the year ended 30 September 2022.
Base case economic forecast	The Banking Group derives a forward-looking "base case" economic scenario which reflects our view of the most likely future macroeconomic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 30 September 2022, the base case assumptions have been updated to reflect the relaxation of COVID-19 related restrictions, continuing supply chain and labour market pressures, and rapidly increasing global inflation and interest rate rises globally, as well as lower growth in key economies. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2022 are described below under the heading "Base case economic forecast assumptions".

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (CONTINUED)

KEY JUDGEMENTS AND ESTIMATES

Judgement / assumption	Description	Considerations for the year ended 30 September 2022
Probability weighting of each economic scenario (base case, upside, downside and severe downside scenarios)[1]	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.	To better reflect the current economic conditions and geopolitical environment, the Banking Group has altered the severe downside scenario from a scenario fixed by reference to average economic cycle conditions to one which aligns with the scenario used for stress testing. The key considerations for probability weightings in the current period include the emergence from COVID-19 restrictions, how customers will respond to interest rate rises and higher inflation, and potential impacts of lower growth prospects globally. Weightings for current and prior periods are as detailed in the section on 'Probability weightings' below.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.	As at 30 September 2022, Management no longer consider that a separate management temporary adjustment is necessary for the uncertainty associated with COVID-19. Management have however included adjustments to accommodate uncertainty associated with rising inflation, rapidly increasing interest rates, and ongoing supply chain and labour market pressures. In addition, management overlays have been made for risks particular to personal and business banking. Management temporary adjustments total NZ$169 million (2021: NZ$177 million).

1 The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.

Base case economic forecast assumptions

Continuing uncertainties described above increase the risk of the economic forecast resulting in an understatement or overstatement of the ECL balance.

The economic drivers of the base case economic forecasts, reflective of our view of future macroeconomic conditions, used at 30 September 2022 are set out below. For the years following the near term forecasts below, the ECL models project future year economic conditions which include an assumption of eventual reversion to mid-cycle economic conditions.

	Forecast calendar year		
New Zealand	2022	2023	2024
Gross domestic product (GDP) (annual % change)	1.9%	1.8%	1.7%
Unemployment rate	3.3%	3.9%	4.9%
Residential property prices (annual % change)	-11.3%	-3.1%	2.6%
Consumer price index (CPI) (annual % change)	6.8%	3.6%	1.9%

The base case economic forecasts reflect the expected slow down in economic activity globally from higher interest rates and increasing inflation, along with declining residential property prices until 2024. Tight labour markets are expected to persist until central banks' monetary policies have the intended impact of reducing demand and bringing inflation down.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Probability weightings

Probability weightings for each scenario are determined by management considering the risks and uncertainties surrounding the base case economic scenario including the uncertainties described above.

The base case scenario represents an overall deterioration in the forecasts since September 2021. Given the uncertainties associated with how the economy may respond to rapidly moving factors including inflation and lower economic growth globally, the base case weighting has been reduced to 45.0% (2021: 50.0%), the upside scenario reduced to 0.0% (2021: 4.5%), the downside scenario reduced to 40.0% (2021:40.5%), and the severe downside scenario increased to 15.0% (2021: 5.0%).

The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Banking Group considers these weightings to provide estimates of the possible loss outcomes and taking into account short and long term inter-relationships within the Banking Group's credit portfolios. The weightings applied are set out below:

	2022	2021
Base	45.0%	50.0%
Upside	0.0%	4.5%
Downside	40.0%	40.5%
Severe downside	15.0%	5.0%

ECL - Sensitivity analysis

Given current economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Banking Group should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 30 September 2022:

	ECL NZ$m	Impact NZ$m
If 1% of Stage 1 facilities were included in Stage 2	679	10
If 1% of Stage 2 facilities were included in Stage 1	668	(1)
100% upside scenario	195	(474)
100% base scenario	250	(419)
100% downside scenario	501	(168)
100% severe downside scenario	1,251	582

Individually assessed allowance for expected credit losses

In estimating individually assessed ECL, the Banking Group makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, business prospects for the customer, competing claims and the likely cost and duration of the work-out process. Judgements and assumptions in respect of these matters have been updated to reflect amongst other things, the uncertainties described above.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL LIABILITIES

Outlined below is a description of how we classify and measure financial liabilities relevant to the subsequent note disclosures.

CLASSIFICATION AND MEASUREMENT

Financial liabilities

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

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

Where financial liabilities are designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income, except where doing so would create or enlarge an accounting mismatch in profit or loss.

13. DEPOSITS AND OTHER BORROWINGS

	Note	2022 NZ$m	2021 NZ$m
Term deposits		46,746	40,668
On demand and short term deposits		62,203	62,648
Deposits not bearing interest		21,381	21,813
Total customer deposits		130,330	125,129
Certificates of deposit		1,639	1,875
Commercial paper		2,955	4,433
Securities sold under repurchase agreements		4,642	1,663
Deposits from Immediate Parent Company and NZ Branch	26	76	39
Deposits and other borrowings		139,642	133,139
Residual contractual maturity:			
Within one year		133,858	129,726
More than one year		5,784	3,413
Deposits and other borrowings		139,642	133,139
Carried on balance sheet at:			
Amortised cost		136,687	128,706
Fair value through profit or loss (designated on initial recognition)		2,955	4,433
Deposits and other borrowings		139,642	133,139

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

- are not designated at FVTPL 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 measured at fair value through profit or loss.

Refer to Note 16 fair value of financial assets and financial liabilities for further details.

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

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

14. DEBT ISSUANCES

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

	2022 NZ$m	2021 NZ$m
Senior debt	13,577	14,220
Covered bonds	4,082	4,248
Total unsubordinated debt	17,659	18,468
Subordinated debt		
- Additional Tier 1 capital	1,941	2,441
- Tier 2 capital	1,423	593
Total subordinated debt	3,364	3,034
Total debt issued	21,023	21,502
Residual contractual maturity:		
Within one year	4,464	4,334
More than one year	16,559	17,168
Total debt issued	21,023	21,502

TOTAL DEBT ISSUED BY CURRENCY

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

		2022 NZ$m	2021 NZ$m
AUD	Australian dollars	44	45
EUR	Euro	6,668	8,055
NZD	New Zealand dollars	3,735	4,494
CHF	Swiss Francs	1,083	984
USD	United States dollars	9,493	7,924
Total debt issued		21,023	21,502

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

SUBORDINATED DEBT

All subordinated debt is issued by the Bank and qualifies as regulatory capital for the Banking Group. Each subordinated debt instrument is classified as either Additional Tier 1 (AT1) capital, in the case of the ANZ NZ Internal Capital Notes 1 (ANZ NZ ICN) and ANZ NZ Internal Capital Notes 2 (ANZ NZ ICN2), or Tier 2 capital for RBNZ's capital adequacy purposes depending on the terms and conditions of the instruments.

In any liquidation event impacting the Bank, Tier 2 capital instruments rank ahead of AT1 capital instruments. AT1 capital instruments rank equally with each other and with the Bank's preference shares and only rank ahead of ordinary shares.

AT1 capital notes

AT1 capital notes are fully paid convertible non-cumulative perpetual subordinated notes. Holders of AT1 capital notes do not have any right to vote in general meetings of the Bank.

AT1 capital notes are classified as debt given there are circumstances beyond the Bank's control where the principal is converted into a variable number of ordinary shares of the Bank.

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. DEBT ISSUANCES (continued)

Each of the AT1 capital notes will immediately convert into a variable number of ordinary shares of the Bank (based on the net assets per share in the Bank's most recently published Disclosure Statement) if:

- 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
- 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.

Where specified, AT1 capital notes 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):

- 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.

RBNZ released new capital adequacy requirements for New Zealand banks, which are being implemented from October 2021 to July 2028. Under the new requirements, from 1 January 2022, the AT1 capital notes are subject to a progressive reduction in their regulatory capital recognition. As a result, the Bank has determined that a regulatory event has occurred in respect of these notes. The occurrence of a regulatory event means that the Bank may choose to redeem any of the AT1 capital notes at its discretion. Any redemption of AT1 capital notes is subject to certain conditions, including regulatory approvals. NZ$500 million of AT1 capital notes were redeemed on 31 December 2021. As at 11 November 2022, no decision has been made on whether the Bank will redeem the AT1 capital notes that were outstanding at 30 September 2022.

The table below show the key details of the AT1 capital notes on issue at 30 September 2022:

	ANZ NZ ICN	ANZ NZ ICN2
Issue date	5 March 2015	15 June 2016
Issue and carrying amount	NZ$1,003 million	NZ$938 million
Face value	NZ$100	NZ$100
Interest frequency	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	24 March 2023	15 June 2026 and each 5th anniversary
Mandatory conversion date	24 March 2025	n/a
Common equity capital trigger event	Yes	Yes
Non-viability trigger event	Yes	Yes

TIER 2 CAPITAL

Tier 2 capital notes are fully paid unsecured subordinated notes. Interest payments are subject to the Bank being solvent at the time of, and immediately following, the payment. Unpaid interest accumulates, and will be paid at the earlier of when the Bank is solvent again or at maturity. The Bank may repay the notes early on the dates specified below, or in certain other circumstances (such as a tax or regulatory event). Early repayment is subject to certain conditions, including approval from RBNZ.

The table below shows the Tier 2 capital subordinated notes the Banking Group holds at 30 September in both the current and prior year:

Currency	Face value	Issue date	Maturity	Next optional call date - subject to RBNZ's approval	Interest rate	Interest reset date	Credit rating[2]	2022 NZ$m	2021 NZ$m
NZD	600m	Sep 2021	Sep 2031	Sep 2026	2.999%	Sep 2026	A-	594	593
USD	500m	Aug 2022	Aug 2032	Aug 2027	5.548%	Aug 2027	A-	829	-
Total Tier 2 capital[1]								**1,423**	593

1 Carrying amounts are net of issuance costs and fair value hedging adjustments.
2 Credit rating assigned by S&P Global Ratings.

RECOGNITION AND MEASUREMENT

Debt issuances are initially recognised at fair value and are subsequently measured at amortised cost, except where designated at fair value through profit or loss. Interest expense on debt issuances is recognised using the effective interest rate method. Where the Banking Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt.

Subordinated debt with capital-based conversion features (i.e. Common Equity Capital Trigger Events or Non-Viability Trigger Events) are considered to contain embedded derivatives that we account for separately at fair value through profit or 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 significant value as of the reporting date given the remote nature of those trigger events.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

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

Key material financial risks	Key sections applicable to this risk
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.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Banking Group's earnings arising from: • changes in interest rates, foreign exchange rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Foreign currency risk – structural exposure
Liquidity and funding risk The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity portfolio management • Funding position • Residual contractual maturity analysis of the Banking Group's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

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

Internal Audit Function

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

- sets the credit risk appetite and credit strategies; and
- approves policies and control frameworks for the management of the Banking Group's credit risk.

The BRC delegates responsibility for day-to-day management of credit risk and compliance with credit risk policies to the Bank's Credit Risk Management Committee (CRMC).

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

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

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

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

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

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

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

15. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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]		Maximum exposure to credit risk	
	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
On-balance sheet positions						
Net loans and advances	**147,067**	140,756	**-**	-	**147,067**	140,756
Other financial assets:						
Cash and cash equivalents	**12,575**	7,844	**154**	163	**12,421**	7,681
Settlement balances receivable	**785**	237	**-**	-	**785**	237
Collateral paid	**1,672**	537	**-**	-	**1,672**	537
Trading securities	**7,228**	9,585	**-**	-	**7,228**	9,585
Derivative financial instruments	**15,481**	9,304	**-**	-	**15,481**	9,304
Investment securities	**11,357**	11,926	**-**	-	**11,357**	11,926
Other financial assets[2]	**955**	496	**-**	-	**955**	496
Total other financial assets	**50,053**	39,929	**154**	163	**49,899**	39,766
Subtotal	**197,120**	180,685	**154**	163	**196,966**	180,522
Off-balance sheet commitments						
Undrawn and contingent facilities[3]	**30,187**	30,030	**-**	-	**30,187**	30,030
Total	**227,307**	210,715	**154**	163	**227,153**	210,552

1 Coins, notes and cash at bank within cash and cash equivalents were excluded as they do not have credit risk exposure.
2 Other financial assets mainly comprise accrued interest and acceptances.
3 Undrawn and contingent facilities include guarantees, letters of credit and performance related contingencies, net of collectively assessed and individually assessed allowance for expected credit losses.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

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

Net loans and advances

			Stage 3		
As at 30 September 2022	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
Strong	123,097	2,678	-	-	125,775
Satisfactory	16,327	3,018	-	-	19,345
Weak	257	1,201	-	-	1,458
Defaulted	-	-	588	146	734
Subtotal	139,681	6,897	588	146	147,312
Allowance for ECL	(199)	(311)	(59)	(77)	(646)
Net loans and advances at amortised cost	139,482	6,586	529	69	146,666
Coverage ratio	0.14%	4.51%	10.03%	52.74%	0.44%
Unearned income					(32)
Capitalised brokerage and other origination costs					433
Net carrying amount					147,067

As at 30 September 2021					
Strong	116,578	1,620	-	-	118,198
Satisfactory	17,122	3,134	-	-	20,256
Weak	293	1,447	-	-	1,740
Defaulted	-	-	618	155	773
Subtotal	133,993	6,201	618	155	140,967
Allowance for ECL	(155)	(314)	(56)	(60)	(585)
Net loans and advances at amortised cost	133,838	5,887	562	95	140,382
Coverage ratio	0.12%	5.06%	9.06%	38.71%	0.41%
Unearned income					(29)
Capitalised brokerage and other origination costs					403
Net carrying amount					140,756

Other financial assets

	2022 NZ$m	2021 NZ$m
Strong	49,833	39,702
Satisfactory	62	49
Weak	4	15
Defaulted	-	-
Total carrying amount	49,899	39,766

15. FINANCIAL RISK MANAGEMENT (continued)

Off-balance sheet commitments - undrawn and contingent facilities

As at 30 September 2022	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
Strong	25,901	224	-	-	26,125
Satisfactory	3,368	682	-	-	4,050
Weak	8	89	-	-	97
Defaulted	-	-	14	6	20
Gross undrawn and contingent facilities	29,277	995	14	6	30,292
Allowance for ECL included in other provisions (refer to Note 20)	(66)	(31)	(3)	(5)	(105)
Net undrawn and contingent facilities	29,211	964	11	1	30,187
Coverage ratio	0.23%	3.12%	21.43%	83.33%	0.35%

As at 30 September 2021	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
Strong	25,072	142	-	-	25,214
Satisfactory	3,734	1,037	-	-	4,771
Weak	12	100	-	-	112
Defaulted	-	-	32	23	55
Gross undrawn and contingent facilities	28,818	1,279	32	23	30,152
Allowance for ECL included in other provisions (refer to Note 20)	(64)	(39)	(4)	(15)	(122)
Net undrawn and contingent facilities	28,754	1,240	28	8	30,030
Coverage ratio	0.22%	3.05%	12.50%	65.22%	0.40%

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

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

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
New Zealand residents								
Agriculture	15,616	16,316	55	43	831	854	16,502	17,213
Forestry and fishing, agriculture services	624	659	16	5	113	137	753	801
Mining	123	95	20	6	350	428	493	529
Manufacturing	2,591	2,342	849	162	1,876	2,126	5,316	4,630
Electricity, gas, water and waste services	810	946	267	337	1,508	1,828	2,585	3,111
Construction	1,235	1,165	4	9	959	909	2,198	2,083
Wholesale trade	1,542	1,264	128	51	2,132	1,790	3,802	3,105
Retail trade and accommodation	2,713	2,473	12	12	735	848	3,460	3,333
Transport, postal and warehousing	993	943	40	55	860	708	1,893	1,706
Finance and insurance services	972	1,040	17,085	10,969	1,955	1,774	20,012	13,783
Rental, hiring & real estate services	38,797	37,441	1,915	1,627	2,610	2,357	43,322	41,425
Professional, scientific, technical, administrative and support services	880	830	12	5	397	480	1,289	1,315
Public administration and safety	199	305	9,924	12,453	855	808	10,978	13,566
Health care and social assistance	950	716	24	12	474	479	1,448	1,207
Households	75,948	71,274	250	156	13,426	13,564	89,624	84,994
Other[1]	1,096	1,094	133	78	1,122	962	2,351	2,134
Subtotal	145,089	138,903	30,734	25,980	30,203	30,052	206,026	194,935
Overseas								
Finance and insurance services	103	104	19,048	13,755	89	100	19,240	13,959
Households	1,402	1,259	5	3	-	-	1,407	1,262
All other non-residents	718	701	112	28	-	-	830	729
Subtotal	2,223	2,064	19,165	13,786	89	100	21,477	15,950
Gross subtotal	147,312	140,967	49,899	39,766	30,292	30,152	227,503	210,885
Allowance for ECL	(646)	(585)	-	-	(105)	(122)	(751)	(707)
Subtotal	146,666	140,382	49,899	39,766	30,187	30,030	226,752	210,178
Unearned income	(32)	(29)	-	-	-	-	(32)	(29)
Capitalised brokerage and other origination costs	433	403	-	-	-	-	433	403
Maximum exposure to credit risk	147,067	140,756	49,899	39,766	30,187	30,030	227,153	210,552

1 Other includes exposures to information media and telecommunications; education and training; arts and recreation services; and other services.

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

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

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

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

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

	Maximum exposure to credit risk		Total value of collateral		Unsecured portion of credit exposure	
	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
Net loans and advances	**147,067**	140,756	**139,154**	133,801	**7,913**	6,955
Other financial assets	**49,899**	39,766	**4,453**	1,878	**45,446**	37,888
Off-balance sheet positions	**30,187**	30,030	**15,758**	16,241	**14,429**	13,789
Total	**227,153**	210,552	**159,365**	151,920	**67,788**	58,632

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

MEASUREMENT OF MARKET RISK

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

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

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

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

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

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

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

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

	2022				2021			
	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	**1.0**	**1.5**	**0.2**	**0.7**	0.6	2.3	0.2	1.0
Interest rate	**3.1**	**4.8**	**1.2**	**2.5**	2.9	7.4	2.0	4.4
Credit	**0.9**	**1.1**	**0.4**	**0.7**	0.5	1.5	0.3	0.8
Diversification benefit[1]	**(1.3)**	**n/a**	**n/a**	**(1.3)**	(1.0)	n/a	n/a	(1.3)
Total VaR	**3.7**	**5.9**	**1.3**	**2.6**	3.0	9.4	2.2	4.9

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

Non-traded market risk

Balance sheet risk management

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

Interest rate risk management

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

	2022				2021			
	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	**30.0**	**30.9**	**20.9**	**26.0**	22.5	38.4	22.3	30.5

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

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income.

	2022	2021
Impact of 1% rate shock on 12 months of net interest income		
As at period end	**-0.5%**	-1.4%
Maximum exposure	**0.5%**	0.2%
Minimum exposure	**-2.2%**	-2.0%
Average exposure (in absolute terms)	**-0.7%**	-1.0%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Where it is considered appropriate, the Banking Group takes out economic hedges against larger foreign exchange denominated revenue streams (primarily Australian Dollar, US Dollar and US Dollar correlated). The primary objective of hedging is to ensure that, if practical, the effect of changes in foreign exchange rates on the consolidated capital ratios are minimised.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

Management of liquidity and funding is overseen by ALCO following delegation from the BRC. Within an overall framework established by the BRC, Treasury and Market Risk have responsibility for the control of funding and liquidity risk at the Banking Group level. Liquidity and funding risks are governed by a set of principles approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards and include:

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

KEY AREAS OF MEASUREMENT FOR LIQUIDITY AND FUNDING RISK

Supervision and regulation

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

Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling of a range of regulatory and internal liquidity metrics.

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

As of 30 September 2022 the Banking Group was operating above the required minimums with the above scenarios.

Structural balance sheet metrics

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

Wholesale funding

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

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

Funding capacity and debt issuance planning

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

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

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

	2022 NZ$m	2021 NZ$m
Central and local government bonds	**8,316**	10,312
Government treasury bills	**829**	899
Certificates of deposit	**656**	959
Other bonds	**8,372**	8,913
Securities eligible to be accepted as collateral in repurchase transactions	**18,173**	21,083
Cash and balances with central banks	**10,267**	7,013
Total liquidity portfolio	**28,440**	28,096

Assets held in the Banking Group's liquidity portfolio include short term cash held with RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated New Zealand domestic corporates.

The Bank also held unencumbered internal residential mortgage backed securities (RMBS) which would be accepted as collateral by RBNZ in repurchase transactions. These holdings would entitle the Bank to enter into repurchase transactions with RBNZ with a value of NZ$10,800 million at 30 September 2022 (2021: NZ$9,647 million).

RBNZ Term Lending Facility (TLF) and Funding for Lending Programme (FLP)

- Between May 2020 and July 2021, RBNZ made funds available under the TLF to promote lending to businesses. The TLF is a five-year secured funding facility for New Zealand banks at a fixed rate of 0.25%.
- In November 2020, RBNZ announced the FLP which aimed to lower the cost of borrowing for New Zealand businesses and households. The FLP is a three-year secured funding facility for New Zealand banks at a floating rate of the New Zealand Official Cash Rate (OCR). New Zealand banks were able to obtain initial funding of up to 4% of their lending to New Zealand resident households, non-financial businesses and non-profit institutions serving households as at 31 October 2020 (eligible loans). The initial allocation closed on 6 June 2022. An additional allocation of up to 2% of eligible loans is available, subject to certain conditions until 6 December 2022.

As at 30 September 2022, the Bank had drawn NZ$300 million (2021: NZ$300 million) under the TLF and NZ$2,500 million (2021: NZ$1,000 million) under the FLP. These amounts are included in securities sold under repurchase agreements in Note 13 deposits and other borrowings.

Liquidity crisis contingency planning

The Banking Group maintains a liquidity crisis contingency plan to define an approach for analysing and responding to a liquidity-threatening event. 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;
- 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.

FUNDING POSITION

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

	Note	2022 NZ$m	2021 NZ$m
Funding composition			
Customer deposits	13	**130,330**	125,129
Wholesale funding			
Debt issuances		**21,023**	21,502
Certificates of deposit and commercial paper		**4,594**	6,308
Other borrowings		**4,718**	1,702
Total wholesale funding		**30,335**	29,512
Total deposits and wholesale funding		**160,665**	154,641

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

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

	2022 NZ$m	2021 NZ$m
Customer deposits by industry - New Zealand residents		
Agriculture, forestry and fishing	4,843	4,485
Mining	257	216
Manufacturing	2,808	2,707
Construction	2,800	2,884
Wholesale trade	2,808	2,688
Retail trade and accommodation	2,197	2,177
Transport, postal and warehousing	1,347	894
Financial and insurance services	13,516	13,836
Rental, hiring and real estate services	3,851	4,260
Professional, scientific, technical, administrative and support services	6,741	6,560
Public administration and safety	1,258	1,813
Health care and social assistance	1,397	1,544
Arts, recreation and other services	2,120	2,226
Households	71,752	67,196
Other[1]	2,783	2,153
Subtotal	120,478	115,639
Customer deposits by industry - overseas		
Households	8,852	8,693
All other non-residents	1,000	797
Subtotal	9,852	9,490
Total customer deposits	130,330	125,129
Wholesale funding (financial and insurance services industry)		
New Zealand	8,251	7,891
Overseas	22,084	21,621
Total wholesale funding	30,335	29,512
Total deposits and wholesale funding	160,665	154,641
Concentrations of funding by geography		
New Zealand	128,729	123,530
Australia	1,563	983
United States	12,986	12,791
Europe	10,389	10,369
Other countries	6,998	6,968
Total deposits and wholesale funding	160,665	154,641

1 Other includes electricity, gas, water and waste services; information media and telecommunications; and education and training.

15. FINANCIAL RISK MANAGEMENT (continued)

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

The tables below provide residual contractual maturity analysis of financial liabilities at 30 September 2022 and 30 September 2021 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how the Banking Group manages its liquidity risk. The management of this risk is detailed on page 44.

2022	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances payable	4,677	299	-	-	-	4,976
Collateral received	-	1,962	-	-	-	1,962
Deposits and other borrowings	83,587	24,318	26,899	6,335	-	141,139
Derivative financial liabilities (trading)	-	13,494	-	-	-	13,494
Debt issuances[1]	-	173	4,886	15,404	3,243	23,706
Lease liabilities	-	13	39	155	42	249
Other financial liabilities	-	148	8	273	215	644
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,224	4,390	6,391	458	12,463
- gross outflows	-	(1,229)	(4,688)	(6,482)	(482)	(12,881)

2021	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances payable	2,383	323	-	-	-	2,706
Collateral received	-	738	-	-	-	738
Deposits and other borrowings	84,461	21,444	24,175	3,604	-	133,684
Derivative financial liabilities (trading)	-	7,665	-	-	-	7,665
Debt issuances[1]	-	26	4,594	12,863	4,907	22,390
Lease liabilities	-	13	39	165	70	287
Other financial liabilities	-	192	48	382	268	890
Derivative financial instruments (balance sheet management)						
- gross inflows	-	447	3,098	4,559	296	8,400
- gross outflows	-	(468)	(3,106)	(4,572)	(251)	(8,397)

1 Any callable wholesale debt instruments have been included at their next call date. Refer to Note 14 debt issuances for subordinated debt call dates.

At 30 September 2022, NZ$30,292 million (2021: NZ$30,152 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Banking Group recognises and measures financial instruments at either fair value or amortised cost, with a significant number of financial instruments on the balance sheet at fair value.

Fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The following tables set out the classification of financial assets and financial liabilities according to measurement bases together with their carrying amounts as recognised on the balance sheet.

		2022			2021		
	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	7	12,575	-	12,575	7,844	-	7,844
Settlement balances receivable		785	-	785	237	-	237
Collateral paid		1,672	-	1,672	537	-	537
Trading securities	8	-	7,228	7,228	-	9,585	9,585
Derivative financial instruments	9	-	15,481	15,481	-	9,304	9,304
Investment securities	10	-	11,357	11,357	-	11,926	11,926
Net loans and advances	11	147,067	-	147,067	140,756	-	140,756
Other financial assets		955	-	955	496	-	496
Total		163,054	34,066	197,120	149,870	30,815	180,685
Financial liabilities							
Settlement balances payable		4,933	-	4,933	2,704	-	2,704
Collateral received		1,962	-	1,962	738	-	738
Deposits and other borrowings	13	136,687	2,955	139,642	128,706	4,433	133,139
Derivative financial instruments	9	-	13,785	13,785	-	7,727	7,727
Debt issuances	14	21,023	-	21,023	21,502	-	21,502
Other financial liabilities		741	364	1,105	572	676	1,248
Total		165,346	17,104	182,450	154,222	12,836	167,058

FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

The fair valuation of financial assets and financial liabilities is generally determined at the individual instrument level.

If the Banking Group holds offsetting risk positions, then we use 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 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.

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

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

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

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

FAIR VALUE HIERARCHY

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

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

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

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
Assets								
Trading securities	**5,565**	8,276	**1,663**	1,309	**-**	-	**7,228**	9,585
Derivative financial instruments	**109**	19	**15,372**	9,284	**-**	1	**15,481**	9,304
Investment securities	**10,895**	11,925	**461**	-	**1**	1	**11,357**	11,926
Total	**16,569**	20,220	**17,496**	10,593	**1**	2	**34,066**	30,815
Liabilities								
Deposits and other borrowings	**-**	-	**2,955**	4,433	**-**	-	**2,955**	4,433
Derivative financial instruments	**8**	5	**13,765**	7,722	**12**	-	**13,785**	7,727
Other financial liabilities	**364**	676	**-**	-	**-**	-	**364**	676
Total	**372**	681	**16,720**	12,155	**12**	-	**17,104**	12,836

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

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

			Categorised into fair value hierarchy							
	Carrying amount		Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Fair value (total)	
	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
Financial assets										
Net loans and advances	**147,067**	140,756	**-**	-	**136**	129	**145,323**	140,574	**145,459**	140,703
Total	**147,067**	140,756	**-**	-	**136**	129	**145,323**	140,574	**145,459**	140,703
Financial liabilities										
Deposits and other borrowings	**136,687**	128,706	**-**	-	**136,493**	128,726	**-**	-	**136,493**	128,726
Debt issuances	**21,023**	21,502	**2,561**	2,626	**18,391**	19,276	**-**	-	**20,952**	21,902
Total	**157,710**	150,208	**2,561**	2,626	**154,884**	148,002	**-**	-	**157,445**	150,628

NOTES TO THE FINANCIAL STATEMENTS

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

The following table sets out the Banking Group's basis of estimating the fair values of financial assets and liabilities carried at amortised cost where the carrying value is not typically a reasonable approximation of fair value.

The carrying values of certain on-balance sheet financial instruments approximate fair values. These financial instruments are short term in nature or are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

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

KEY JUDGEMENTS AND ESTIMATES

A significant portion of financial instruments are carried on the Banking Group's balance sheet at fair value. The Banking Group therefore regularly evaluates the key valuation assumptions used in the determination of the fair valuation of financial instruments incorporated within the financial statements, as this can involve a high degree of judgement and estimation in determining the carrying values at the balance sheet date.

In determining the fair valuation of financial instruments, the Banking Group has considered the impact of related economic and market conditions on fair value measurement assumptions and the appropriateness of valuation inputs in these estimates, notably valuation adjustments, as well as the impact of these matters on the classification of financial instruments in the fair value hierarchy.

Most of the valuation models the Banking Group uses employ only observable market data as inputs. For certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available. When establishing the fair value of a financial instrument using a valuation technique, the Banking Group also considers any required valuation adjustments in determining the fair value. We may apply adjustments (such as credit valuation adjustments and funding valuation adjustments – refer Note 9 derivative financial instruments) to reflect the Banking Group's assessment of factors that market participants would consider in determining fair value of a particular financial instrument.

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

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

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;
- specified residential mortgages provided as security for notes and bonds issued to investors as part of the Banking Group's covered bond programmes; and
- collateral provided to RBNZ under the TLF and FLP.

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

	2022 NZ$m	2021 NZ$m
Securities sold under agreements to repurchase[1]	**1,833**	362
Residential mortgages pledged as security for repurchase agreements with RBNZ	**3,494**	1,556
Total assets of the ANZNZ Covered Bond Trust pledged as security for covered bonds	**10,921**	11,406

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

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

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

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

	2022 NZ$m	2021 NZ$m
Fair value of assets which can be sold or repledged	**1,233**	610
Fair value of assets sold or repledged	**959**	565

NOTES TO THE FINANCIAL STATEMENTS

18. OFFSETTING

We offset financial assets and financial liabilities in the balance sheet (in accordance with NZ IAS 32) 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.

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			
2022	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	15,481	(4,180)	11,301	(9,817)	(1,128)	356
Reverse repurchase agreements[1]	1,248	-	1,248	-	(1,248)	-
Total financial assets	16,729	(4,180)	12,549	(9,817)	(2,376)	356
Derivative financial instruments	(13,785)	2,592	(11,193)	9,817	562	(814)
Repurchase agreements[2]	(4,642)	-	(4,642)	-	4,642	-
Total financial liabilities	(18,427)	2,592	(15,835)	9,817	5,204	(814)
2021						
Derivative financial instruments[3]	9,304	(1,881)	7,423	(6,050)	(374)	999
Reverse repurchase agreements[1]	610	-	610	-	(610)	-
Total financial assets	9,914	(1,881)	8,033	(6,050)	(984)	999
Derivative financial instruments	(7,727)	1,250	(6,477)	6,050	81	(346)
Repurchase agreements[2]	(1,663)	-	(1,663)	-	1,663	-
Total financial liabilities	(9,390)	1,250	(8,140)	6,050	1,744	(346)

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.
3 The comparative amounts for financial collateral received and net amount have been updated to include the effect of NZ$245 million of collateral received.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	2022 NZ$m	2021 NZ$m
Goodwill	3,006	3,006
Management rights	76	76
Software	17	9
Goodwill and other intangible assets	3,099	3,091

GOODWILL AND OTHER INTANGIBLE ASSETS ALLOCATED TO CASH-GENERATING UNITS (CGUs)

Goodwill arose on the acquisition of the NBNZ Holdings Limited group on 1 December 2003, and the carrying amount reflects amortisation recognised before the application of NZ IFRS from 1 October 2004 and subsequent business disposals. Funds management rights, assessed as having indefinite useful lives, arose on the acquisition of the ING Holdings (NZ) Limited (now ANZ New Zealand Investments Holdings Limited) group on 30 November 2009.

Goodwill and funds management rights are allocated to CGUs as follows:

	Goodwill		Management rights	
Cash generating unit	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
Personal	980	980	-	-
Funds Management	62	62	76	76
Personal segment	1,042	1,042	76	76
Business	895	895	-	-
Institutional	1,069	1,069	-	-
Total	3,006	3,006	76	76

Goodwill was assessed for indicators of impairment as at 30 September 2022, taking into account the results of the February 2022 impairment test and associated sensitivity and scenario analysis performed and the forecast impact of recent economic events. There were no indicators of impairment therefore, in accordance with NZ IAS 36 *Impairment of Assets*, no further impairment test was required. The following information is for the annual goodwill impairment test.

Annual goodwill impairment test

The annual impairment test is performed as at the end of February each year. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal (FVLCOD) and its value-in use (VIU). We use a value-in-use approach to estimate the recoverable amount of the CGU to which each goodwill component is allocated. Based on this assessment no impairment was identified for any CGU, and therefore a FVLCOD calculation was not required.

NOTES TO THE FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

VALUE-IN-USE

These calculations use cash flow projections based on a number of financial budgets within each CGU covering an initial forecast period. These projections also incorporate economic assumptions including GDP, inflation, unemployment, residential and commercial property prices, the impact of the restriction imposed by RBNZ on the payment of ordinary dividends by all New Zealand incorporated registered banks, and the implementation of RBNZ's increased capital requirements. Cash flows beyond the forecast period are extrapolated using the terminal growth rate. These cash flow projections are discounted using a discount rate derived using a capital asset pricing model.

Future changes in the assumptions upon which the calculation is based may materially impact this assessment, resulting in the potential impairment of part or all of the goodwill balances.

Input / assumption	Values applied in 28 February 2022 impairment test
Forecast period and projections	To 30 September 2028 - an extended forecast period was used to cover the implementation of RBNZ's increased capital requirements over the transition period ending on 1 July 2028.
Revenue growth over forecast period	Comprises impacts of net interest margin and volume growth, arising from planned responses to known regulatory and economic forecasts. Average annual forecast revenue growth rates are shown below.
Credit impairment over forecast period	Varies by CGU, based on ECL modelling for 2022 to 2024, before returning to long run experience levels for 2025 to 2028. Long run experience levels are based on the Banking Group's bad debts written off, net of recoveries, since 2004 of 0.15% of gross loans and advances. Credit impairment for each CGU as a percentage of forecast gross loans and advances for 2025 to 2028 is shown below.
Terminal growth rate	2.0% - based on 2025 forecast inflation from RBNZ's February 2022 Monetary Policy Statement.
Discount rate	Post tax: 10.7% (February 2021: 9.4%). The main variables in the calculation of the discount rate used are the risk free rate, beta and the market risk premium. The risk free rate was the traded 10 year New Zealand government bond yield as at 28 February 2022 of 2.7%. The market risk premium was estimated using a range of methods incorporating historical and forward-looking market data. Beta was consistent with observable measures applied in the regional banking sector.

The values of the average revenue growth, credit impairment as a percentage of forecast gross loans and advances, and pre-tax discount rates assumptions by CGU are shown in the table below. The implied pre-tax discount rates are significantly higher than the post-tax discount rate above because regulatory capital retention over the forecast period is not tax effected.

	Revenue growth		Credit impairment		Pre-tax discount rate	
Cash generating unit	28 Feb 22	28 Feb 21	28 Feb 22	28 Feb 21	28 Feb 22	28 Feb 21
Personal (previously Retail and Business Banking)	5.1%	6.1%	0.12%	0.13%	20.8%	17.5%
Funds Management (previously Wealth)	6.4%	3.4%	n/a	0.10%	18.6%	16.4%
Business (previously Commercial)	5.3%	4.2%	0.21%	0.21%	20.8%	17.8%
Institutional	3.6%	4.5%	0.22%	0.21%	20.6%	17.3%

We performed stress tests for key sensitivities in each CGU. A change, considered to be reasonably possible by management, in key assumptions would not cause the carrying amount of any CGU to exceed its recoverable amount.

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	Management rights
Definition	Excess amount the Banking Group has paid in acquiring a business over the fair value of the identifiable assets and liabilities acquired.	Purchased software owned by the Banking Group is capitalised. Internal and external costs incurred in building software and computer systems costing more 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.	Management fee rights arising from acquisition of funds management business.
Carrying value	Cost less any accumulated impairment losses. Allocated to the CGU 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 cost less 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 2-5 years; however major core infrastructure may be amortised up to 7 years subject to approval by the Audit Committee. Purchased software is amortised over 2 years unless it is considered integral to other assets with a longer useful life.	Management fee rights have an indefinite life and are reviewed for impairment at least annually or when there is an indication of impairment.
Amortisation method	Not applicable.	Straight-line method.	Not applicable.

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 whether an asset has an indefinite life. We reassess the recoverability of the carrying value at each reporting date.

Goodwill

A number of key judgements are required in the determination of whether or not a goodwill balance is impaired including:

- the level at which goodwill is allocated – consistent with prior periods the CGUs to which goodwill is allocated are the Banking Group's revenue generating segments that benefit from relevant historical business combinations generating goodwill.
- determination of the carrying amount of each CGU which includes an allocation, on a reasonable and consistent basis of corporate assets and liabilities that are not directly attributable to the CGUs to which goodwill is allocated.
- assessment of the recoverable amount of each CGU used to determine whether the carrying amount of goodwill is supported is based on judgements including the selection of the model and key assumptions used to calculate the recoverable amount.

The assessment of the recoverable amount of each CGU has been made within the context of the inherent uncertainty described in the key judgements and estimates section on page 9.

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER PROVISIONS

	Note	2022 NZ$m	2021 NZ$m
Allowance for ECL on undrawn and contingent facilities	12	105	122
Customer remediation		70	98
Restructuring costs		11	25
Leasehold make good		22	22
Other		14	28
Total other provisions		**222**	295

Movements in other provisions

	Customer remediation NZ$m	Restructuring costs NZ$m	Leasehold make good NZ$m	Other NZ$m
Balance at start of year	98	25	22	28
New and increased provisions made during the year	3	5	2	1
Provisions used during the year	(31)	(16)	(2)	-
Unused amounts reversed during the year	-	(3)	-	(15)
Balance at end of year	70	11	22	14

Customer remediation

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

Restructuring costs

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

Leasehold make good

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

Other

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

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

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

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including the number of impacted customers, the average refund per customer, the associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances. There is a heightened level of estimation uncertainty where the customer remediation provision relates to a legal proceeding or matter. The appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence including expert legal advice and adjustments are made to the provisions where appropriate.

21. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2022 NZ$m	2021 NZ$m
Share capital	12,438	11,888
Reserves		
FVOCI reserve	22	62
Cash flow hedge reserve	26	8
Total reserves	48	70
Retained earnings	5,298	4,934
Total shareholders' equity	17,784	16,892

SHARE CAPITAL

The table below details the movement in issued shares and share capital for the period.

	Number of issued shares		NZ$ millions	
	2022	2021	2022	2021
Ordinary shares	6,345,755,498	6,345,755,498	11,588	11,588
Preference shares				
Preference shares at start of year	300,000,000	300,000,000	300	300
Preference shares issued during the year	550,000,000	-	550	-
Preference shares	850,000,000	300,000,000	850	300
Total share capital	7,195,755,498	6,645,755,498	12,438	11,888

Preference shares

There are two classes of preference shares: preference shares issued in 2013 and perpetual preference shares issued in 2022.

As at 30 September 2022, the preference shares qualify as AT1 capital for RBNZ's capital adequacy purposes.

2013 preference shares – NZD 300 million

The 2013 preference shares (PS) are issued to the Immediate Parent Company. The key terms of the PS are as follows:

PS dividends

PS 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 PS dividend payment date if a PS dividend is not paid.

Should the Bank elect to pay a PS dividend, the PS dividend is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus 3.25%, multiplied by one minus the New Zealand company tax rate (where the PS dividend is fully imputed), with PS dividend payments due on 1 March and 1 September each year.

The Bank paid a dividend on the PS on 1 March and 1 September during the years ended 30 September 2022 and 30 September 2021, and aggregate amounts are shown in the statement of changes in equity.

Redemption features

The PS are redeemable, subject to prior written approval of RBNZ. Under RBNZ's new capital requirements, from 1 January 2022, the PS are subject to a progressive reduction in their regulatory capital recognition. As a result, the Bank has determined that a regulatory event has occurred in respect of the PS. The occurrence of a regulatory event means that the Bank may choose to redeem the PS at its discretion, subject to prior written approval of RBNZ. As at 11 November 2022, no decision has been made on whether the Bank will redeem the PS.

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

2022 preference shares – NZD 550 million

Perpetual preference shares (PPS) are issued to parties outside of the Overseas Banking Group. The key terms of the PPS are as follows:

PPS dividends

PPS dividends are payable at the discretion of the Directors of the Bank and are non-cumulative. The Bank must not authorise or pay a dividend on its ordinary shares, acquire its ordinary shares or otherwise undertake a capital reduction in respect of its ordinary shares until the next PPS dividend payment date if a PPS dividend is not paid.

Should the Bank elect to pay a PPS dividend, the PPS dividend is 6.95% per annum up until 18 July 2028 and thereafter a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus 3.25%, multiplied by one minus the New Zealand company tax rate (where the PPS dividend is fully imputed), with PPS dividend payments scheduled to be paid on 18 January, 18 April, 18 July and 18 October each year.

No PPS dividends were due during the year ended 30 September 2022.

NOTES TO THE FINANCIAL STATEMENTS

21. SHAREHOLDERS' EQUITY (CONTINUED)

Redemption features

Holders of PPS have no right to require that the PPS be redeemed. The Bank may at its option redeem all of the PPS on an optional redemption date (each dividend date from 18 July 2028); or at any time following the occurrence of a tax event or regulatory event, in each case subject to prior written approval of RBNZ and other conditions being met.

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Bank, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Preference shares	Preference shares do not carry any voting rights. They are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and AT1 capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.
Reserves:	
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments together with any tax effect.
FVOCI reserve	Includes the changes in fair value of investment securities together with any tax effect. In respect of debt securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition, except for those relating to allowance for ECL, interest income and foreign currency exchange gains and losses which are recognised in profit or loss. As debt securities at FVOCI are recorded at fair value, the balance of the FVOCI reserve is net of the ECL allowance associated with such assets. When a debt security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is reclassified to profit or loss and presented in other operating income. In respect of the equity securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition (including any related foreign exchange gains or losses). When an equity security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is not recycled to profit or loss.

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Banking Group's core capital objectives are to:

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

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

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

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

ALCO is 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.

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

REGULATORY ENVIRONMENT

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

	Regulatory capital definition	Minimum capital ratios
Common Equity Tier 1 (CET1) capital	Comprises ordinary share capital, retained earnings, and certain accounting reserves. Some amounts (e.g. the value of goodwill) must be deducted to determine the final value of CET1 capital.	CET1 capital divided by total risk weighted assets must be at least 4.5%.
Tier 1 capital	CET1 capital plus additional tier 1 instruments, which comprise high-quality capital and must: • provide a permanent and unrestricted commitment of funds; • be freely available to absorb losses; and provide for fully discretionary capital distributions.	Tier 1 capital divided by total risk weighted assets must be at least 6.0%.
Total capital	Tier 1 plus Tier 2 capital. Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 3.5% (2021: 2.5%).

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

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

Unaudited	2022 NZ$m	2021 NZ$m
Qualifying capital		
Tier 1		
Shareholder's equity	17,784	16,892
Prudential adjustments to shareholders' equity[1]	(857)	(300)
Gross Common Equity Tier 1 capital	16,927	16,592
Deductions	(3,589)	(3,591)
Common Equity Tier 1 capital	13,338	13,001
Additional tier 1 capital	2,791	2,752
Tier 1 capital	16,129	15,753
Tier 2 capital	1,562	635
Total capital	17,691	16,388
Capital adequacy ratios		
Common Equity Tier 1	12.4%	13.4%
Tier 1	15.0%	16.2%
Tier 2	1.4%	0.7%
Total	16.4%	16.9%
Prudential capital buffer ratio	7.9%	8.9%
Risk weighted assets	107,677	97,177

1 Includes preference shares and a deduction for dividends on AT1 capital instruments approved by the Bank's board, but not yet paid as at 30 September 2022, as required by BPR110 *Capital Definitions*.

23. CONTROLLED ENTITIES

The following table lists the subsidiaries of the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand unless stated otherwise.

ANZ Bank New Zealand Limited	Nature of business Registered bank
ANZ Custodial Services New Zealand Limited	Custodian and nominee
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ National Staff Superannuation Limited	Staff superannuation scheme trustee
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Holdings Limited[1]	Holding company
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Investments Nominees Limited	Custodian and nominee
OneAnswer Nominees Limited	Wrap services provider
ANZNZ Covered Bond Trust[2]	Securitisation entity
Arawata Assets Limited	Property
Endeavour Finance Limited	Investment
Kingfisher NZ Trust 2008-1[2]	Securitisation entity

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

Changes in controlled entities

ANZ New Zealand Securities Limited amalgamated with the Bank on 31 March 2022.

RECOGNITION AND MEASUREMENT

The Banking Group subsidiaries are those entities it controls through:

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

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

24. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity. SEs are generally established with restrictions on their ongoing activities in order to achieve narrow and well defined objectives.

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

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

Type	Details
Securitisation	The Banking Group uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). The Banking Group is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2022 and 30 September 2021, the Banking Group had entered into repurchase agreements with RBNZ in relation to the TLF and FLP. Additionally, the Banking Group may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. The Banking Group is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	The Banking Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Banking Group may provide risk management products (derivatives) to the SE. In all instances, the Banking Group does not control these SEs. Further, the Banking Group's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Banking Group is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme. These MIS are financed through the issue of units to investors and the Banking Group considers them to be SEs. The Banking Group's interests in these MIS are limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures to the MIS that would allow the Banking Group to control the funds. Therefore, these MIS are not consolidated.

NOTES TO THE FINANCIAL STATEMENTS

24. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or other support provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2021: nil).

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's interest in Unconsolidated Structured Entities

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

For the purpose of disclosing interests in unconsolidated SEs:

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

The Banking Group earned funds management fees from its MIS of NZ$196 million (2021: NZ$204 million) during the year. As at 30 September 2022, the Banking Group had total funds under management of NZ$34.3 billion (2021: NZ$39.0 billion) of which NZ$24.6 billion (2021: NZ$28.5 billion) related to its MIS, with the largest individual fund being approximately NZ$3.8 billion (2021: NZ$4.3 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2021: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether the Banking Group has control over Structured Entities. Judgement is required to determine the existence of:

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

25. TRANSFERS OF FINANCIAL ASSETS

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

Covered bonds

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

Repurchase agreements

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

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

	Covered bonds		Repurchase agreements	
	2022 NZ$m	2021 NZ$m	2022 NZ$m	2021 NZ$m
Current carrying amount of assets transferred	10,921	11,406	5,327	1,918
Carrying amount of associated liabilities	4,082	4,248	4,642	1,663

26. RELATED PARTY DISCLOSURES

Key management personnel and their related parties

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

Key management personnel compensation[1]	2022 NZ$000	2021 NZ$000
Salaries and short-term employee benefits	12,077	11,256
Post-employment benefits	365	192
Other long-term benefits[2]	93	68
Termination benefits[3]	68	1,308
Share-based payments	2,887	2,395
Total	15,490	15,219

1 Includes former disclosed KMPs until the end of their employment, and close family members of KMP employed by the Banking Group.
2 Comprises long service leave accrued during the year.
3 Includes payments for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation.

Transactions and balances with key management personnel and their related parties[1]	2022 NZ$m	2021 NZ$m
Secured loans and advances	28	26
Credit related commitments (undrawn loan facilities)	3	3
Interest income	1	1
Customer deposits[2]	17	19
Payables and other liabilities (share-based payments liability)	3	2

1 Includes KMP, close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members, of the Banking Group and its parent companies.
2 Includes holdings of units in the ANZ PIE Fund (a sponsored unconsolidated structured entity) which are invested solely in deposits of the Bank.

Loans made to KMP and their related parties are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. No amounts have been written off or forgiven, or individually assessed allowances for expected credit losses raised in respect of these balances (2021: nil).

All other transactions with KMP and their related parties are made on terms and conditions no more favourable than those given to other employees or customers. These transactions generally involve the provision of financial and investment services. In addition to the amounts above:

- Aggregate amounts for each of unsecured loans and advances, interest expense, fee income, debt issuances and collectively assessed credit impairment charge and allowance for expected credit losses were less than NZ$1 million for both years presented.
- KMP and their related parties also hold units in MIS managed by the Banking Group. Transactions and balances in respect of these MIS holdings are not disclosed because those MIS are unconsolidated structured entities and not included in the financial statements of the Banking Group.
- Some KMP pay the Banking Group for the use of carparks in premises owned or leased by the Banking Group. These amounts were less than NZ$0.1 million (2021: less than NZ$0.1 million).

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES (continued)

Transactions with other members of the Overseas Banking Group and associates

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

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

Transactions	2022 NZ$m	2021 NZ$m
Immediate Parent Company		
Dividends paid	1,924	908
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Interest income	5	2
Interest expense	129	103
Loss on sale of mortgages to the NZ Branch	(2)	-
Other operating income	9	16
Operating expenses	107	120
Mortgages sold to the NZ Branch	66	130
Mortgages repurchased from the NZ Branch	18	17
Associates		
Operating expenses	3	2

Outstanding balances	2022 NZ$m	2021 NZ$m
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Cash and cash equivalents	36	152
Collateral paid	268	-
Derivative financial instruments	8,556	5,352
Other assets	76	41
Total due from related parties	8,936	5,545
Immediate Parent Company		
Deposits and other borrowings	65	28
Derivative financial instruments	3	1
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Settlement balances payable	933	129
Collateral received	-	242
Deposits and other borrowings	11	85
Derivative financial instruments	8,934	5,018
Payables and other liabilities	40	32
Debt issuances	1,943	1,942
Associates		
Deposits and other borrowings	1	1
Total due to related parties	11,930	7,478

Balances due from / to other members of the Overseas Banking Group and associates are unsecured. The Bank has provided guarantees and commitments to, and received guarantees from, these entities as follows.

	2022 NZ$m	2021 NZ$m
Financial guarantees provided by the Ultimate Parent Bank and other subsidiaries not part of the Banking Group	262	219
Financial guarantees provided to the Ultimate Parent Bank and other subsidiaries not part of the Banking Group	89	100
Performance related contingent liabilities to the Ultimate Parent Bank	58	-
Undrawn facilities provided to the Immediate Parent Company	250	250
Undrawn facilities provided to associates	1	1

27. COMMITMENTS AND CONTINGENT LIABILITIES

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2022 NZ$m	2021 NZ$m
Contract amount of:		
Undrawn facilities	27,310	27,420
Guarantees and letters of credit	1,225	1,181
Performance related contingencies	1,757	1,551
Total	30,292	30,152

UNDRAWN FACILITIES

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

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

OTHER CONTINGENT LIABILITIES

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions (refer to Note 20 other provisions) and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice seriously the interests of the Banking Group.

REGULATORY AND CUSTOMER EXPOSURES

The Banking Group regularly engages with its regulators in relation to regulatory investigations, surveillance and reviews, reportable situations, civil enforcement actions (whether by court action or otherwise), formal and informal inquiries and regulatory supervisory activities both in New Zealand and globally. The Banking Group has received various notices and requests for information from its regulators as part of both industry-wide and Banking Group-specific reviews, and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, may include a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, privacy obligations and information security, business continuity management, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

The Bank self-identified three prescribed transaction reporting (PTR) matters to RBNZ, where transaction reports had not been filed within the prescribed timeframe. RBNZ has informed the Bank that it considers one of these matters (related to 6,409 transaction reports of a certain SWIFT message type) to be a material breach, and the other two to be minor breaches, of the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009 relating to PTR. RBNZ's enforcement team is considering this matter. The potential outcome of these matters remains uncertain at this time.

LOAN INFORMATION LITIGATION

In September 2021, representative proceedings were brought against the Bank, alleging breaches of disclosure requirements under consumer credit legislation in respect of variation letters sent to certain loan customers. The Bank is defending the allegations. The proceedings are still at an early stage. A hearing of the plaintiff's application for leave to bring representative proceedings was heard before the High Court in May 2022. The Court has ruled that the proceedings shall proceed as an opt-out representative action brought by one representative plaintiff on behalf of a class, being customers who entered into a home loan or personal loan with the Bank between 6 June 2015 and 28 May 2016 and requested a variation to that loan during that period.

WARRANTIES AND INDEMNITIES

The Banking Group has provided warranties, indemnities and other commitments in favour of the purchaser in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments, some of which are currently active. The outcomes and total costs associated with these exposures remain uncertain.

REVIEWS UNDER SECTION 95 OF THE RESERVE BANK OF NEW ZEALAND ACT 1989 (RBNZ ACT)

Following a RBNZ notice under section 95 of the RBNZ Act in July 2019, the Bank obtained two external reviews. The first review was on the Bank's compliance with certain aspects of the RBNZ Banking Supervision Handbook document Capital Adequacy Framework (Internal Models Based Approach) (BS2B) (Capital Adequacy Review), and the second review was on the effectiveness of the Bank's directors' attestation and assurance framework (Attestation Review).

A summary of the final Attestation Review was published in March 2022. The report found that the Bank has taken appropriate steps to address the recommendations from the 2019 Attestation Review report. The review noted that there has been a marked uplift in the overall capabilities within the Bank in respect to the attestation process, with heightened focus and scrutiny from management, executives and the Bank's board. The review also noted while there are elements of the framework still in the process of being embedded, the key changes recommended in the 2019 Attestation Review report have been appropriately addressed.

The final Capital Adequacy Review was completed in December 2021. The report found that the Bank had made significant progress to address non-compliance issues and improvement items identified by the 2019 Capital Adequacy Review report. In particular, as at 30 September 2022 all previously non-compliant capital models have been approved by RBNZ.

28. AUDITOR FEES

	2022 NZ$000	2021 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	2,050	2,173
Audit related services:		
Prudential and regulatory services[2]	196	333
Offer documents assurance or review	130	117
Other assurance services[3]	40	47
Total audit related services	366	497
Total auditor fees relating to the Banking Group	2,416	2,670
Fees related to certain managed funds not recharged[4]	262	244
Total auditor fees	2,678	2,914

1 Includes fees for both the audit of annual financial statements and reviews of interim financial statements.
2 Includes fees for reviews and controls reports required by regulations.
3 Includes fees for other reviews and agreed upon procedures engagements.
4 Amounts relate to the ANZ PIE Fund, ANZ Investments Private Scheme and SIL Mutual Funds, and include fees for audits of annual financial statements, registry audits, supervisor reporting and other agreed upon procedures engagements.

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

29. POTENTIAL NEW ULTIMATE HOLDING COMPANY

On 4 May 2022, the Ultimate Parent Bank announced its intention to lodge a formal application with APRA, the Australian Federal Treasurer and other applicable regulators to establish a non-operating holding company and create distinct banking and non-bank groups within the organisation to assist the Overseas Banking Group to better deliver its strategy to strengthen and grow its core business further.

Should the proposed restructure proceed, the Ultimate Parent Company will establish a non-operating holding company, ANZ Group Holdings Limited, as the new listed parent holding company of the ANZ Group by a scheme of arrangement and to separate the Overseas Banking Group's banking and certain non-banking businesses into the ANZ Bank Group and ANZ Non-Bank Group. The 'ANZ Bank Group' would comprise the current Australia and New Zealand Banking Group Limited and the majority of its present-day subsidiaries. The 'ANZ Non-Banking Group', would house banking-adjacent businesses developed or acquired by the ANZ Group, as we continue to seek ways to bring the best new technology and banking-adjacent services to our customers.

The Explanatory Memorandum has been registered with the Australian Securities and Investments Commission and the Ultimate Parent Bank shareholders will be asked to vote on the scheme on 15 December 2022. A copy of the Explanatory Memorandum is available on the website anz.com/schememeeting.

This is not expected to have a material impact on the Banking Group.

REGISTERED BANK DISCLOSURES

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

Section		Order reference	Page
B1.	General disclosures	Schedule 2	69
B2.	Additional financial disclosures	Schedule 4	80
B3.	Asset quality	Schedule 7	81
B4.	Capital adequacy under the internal models based approach, and regulatory liquidity ratios	Schedule 11	90
B5.	Concentration of credit exposures to individual counterparties	Schedule 13	95
B6.	Credit exposures to connected parties	Schedule 14	96
B7.	Insurance business, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products	Schedule 15	97
B8.	Risk management policies	Schedule 17	99

B1. GENERAL DISCLOSURES (UNAUDITED)

Details of ultimate parent bank and ultimate holding company

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

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

Effect of APRA's Prudential Standards

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

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

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

- the Ultimate Parent Bank should not undertake any third party dealings with the prime purpose of supporting the business of the Bank;
- the Ultimate Parent Bank must not hold unlimited exposures (i.e. should be limited as to specified time or amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) triggers or is deemed to trigger a default by the Ultimate Parent Bank on its obligations; and
- the level of exposure, net of exposures deducted from capital, of the Ultimate Parent Bank's Level 1 Tier 1 capital base to the Bank should not exceed: (A) 25% on an individual exposure basis; or (B) 75% in aggregate (being exposures to all similar regulated ADI equivalent entities related to the Ultimate Parent Bank).

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

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

Effect of the Level 3 framework

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

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

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

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

Other APRA powers

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

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

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

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Priority of creditors' claims

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

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 16, SAP Tower, 151 Queen Street, Auckland 1010, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 33 for further details, and to page 51 for the amount of assets of the ANZ Covered Bond Trust pledged as security for covered bonds.

No other material obligations of the Bank are guaranteed as at 11 November 2022.

Auditors

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

Directors

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

Transactions with Directors

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

Board Audit Committee

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

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

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the Board has adopted a protocol setting out the procedures for Directors to follow to disclose and manage conflicts of interest. This protocol will be reviewed annually. In addition:

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

In addition to the disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items. Disclosures are entered into the Bank's Interests Register. The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, under the protocol the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)



	Rt Hon Sir John Key, GNZM AC	Antonia Watson	Shayne Elliott
Position	Independent Non-Executive Director and Chair	Chief Executive Officer and Director	Non-Executive Director
Occupation	Company Director	Chief Executive Officer New Zealand and Group Executive	Chief Executive Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BCom, DCom (Honoris Causa)	BCom (Hons), GAICD	BCom
Resides	Auckland, New Zealand	Auckland, New Zealand	Melbourne, Australia
Other company directorships	Australia and New Zealand Banking Group Ltd, Kyro Capital Ltd, Palo Alto Networks Inc, Sashimi Holdings Ltd, Thirty Eight JK Ltd, Thirty Eight JK Aviation Ltd	ANZ Holdings (New Zealand) Ltd, Banking Ombudsman Scheme Ltd, Mehek Holdings Ltd	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children



	Gerard Florian	Alison Gerry	Scott St John
Position	Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director
Occupation	Group Executive, Technology, Australia and New Zealand Banking Group Ltd	Company Director	Company Director
Qualifications	Electronic Engineering Certificate	BMS (Hons), MAppFin, CFInstD	BCom, Diploma of Business
Resides	Sydney, Australia	Queenstown, New Zealand	Auckland, New Zealand
Other company directorships	Floco Industries Pty Ltd	Air New Zealand Ltd, Glendora Avocados Ltd, Glendora Holdings Ltd, Infratil Ltd, On Being Bold Ltd, Sharesies Ltd, Sharesies AU Group Ltd, Sharesies Group Ltd, Sharesies Investment Management Ltd, Sharesies Nominee Ltd	Captain Cook Nominees Ltd, Fisher & Paykel Healthcare Corporation Ltd, Fisher & Paykel Healthcare Employee Share Purchase Trustee Ltd, Fonterra Co-operative Group Ltd, Hutton Wilson Nominees Ltd, Mercury NZ Limited, Te Awanga Terraces Ltd


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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Conditions of registration

The following conditions of registration were applicable as at 30 September 2022, and have applied from 5 September 2022.

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

1. That—

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

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

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

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

For the purposes of this condition of registration, —

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy, except that in the formulae for calculating the ratios, —

(a) the term "total capital requirement for operational risk" has the same meaning as in BPR150: Standardised Operational Risk; and

(b) for the purpose of calculating the term "total RWA equivalents", in calculating the component "total credit risk RWAs" under section C1.4 of BPR130: Credit Risk RWAs Overview, the bank must add the sum of the following amounts to the term "total RWAs calculated using the IRB approach":

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

and

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

"standard residential mortgage loan" has the same meaning as in section C3.4 of BPR131: Standardised Credit Risk RWAs;

"Total capital" has the same meaning as in BPR110: Capital Definitions.

1A. That—

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in Part D of BPR100: Capital Adequacy;

(b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and

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

1B. That the bank must—

(a) comply with the minimum requirements for using the IRB approach set out in BPR134: IRB Minimum System Requirements;

(b) comply with the minimum qualitative requirements for using the AMA approach for operational risk set out in subpart B1 of BPR151: AMA Operational Risk;

(c) follow the process in Part E of BPR120: Capital Adequacy Process Requirements for obtaining Reserve Bank approval for any changes to any IRB credit risk model;

(d) maintain a compendium of approved models in accordance with the requirements of section E1.5 of BPR120: Capital Adequacy Process requirements.

1C. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 3.5% or less, the bank must—

(a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio: and

Banking group's PCB ratio	Percentage limit on distributions of the bank's earnings	Capital Buffer Response Framework stage
0% - 0.5%	0%	Stage 3
>0.5 - 1%	30%	Stage 2
>1 - 2%	60%	Stage 1
>2 - 3.5%	100%	None

(b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration,—

"prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in BPR150: Standardised Operational Risk;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

1CA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, "transitional AT1 capital instrument" has the meaning given in section A2.3 of BPR110: Capital Definitions and "loss absorption trigger event" and "non-viability trigger event" have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

1D. That:

(a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and

(b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration,—

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

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

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

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

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2021.

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

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

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

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

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

(d) an alternate director,—

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

(ii) for an independent director must be independent;

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

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

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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

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

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

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

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

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

    This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 21, from which point in time condition 21 will apply to that outsourcing arrangement.

    For the purposes of this condition of registration:
    (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
    (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated September 2022.

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

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:
    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
    (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022.

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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

For the purposes of this condition,—

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

"SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

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

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

(i) all liabilities are frozen in full; and

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

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

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

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

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

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

For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

18. That the bank has an Implementation Plan that—

(a) is up-to-date; and

(b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated June 2022.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

19. That the bank has a compendium of liabilities that—

(a) at the product-class level lists all liabilities, indicating which are—

(i) pre-positioned for Open Bank Resolution; and

(ii) not pre-positioned for Open Bank Resolution;

(b) is agreed to by the Reserve Bank; and

(c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

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

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

21. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated September 2022.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

22. That, for a loan-to-valuation measurement period ending on or after 31 July 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
23. That, for a loan-to-valuation measurement period ending on or before 31 December 2021, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
24. That, for a loan-to-valuation measurement period ending on or after 31 January 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
25. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

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

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

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1D, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are—

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2021
BPR120: Capital adequacy process requirements	1 July 2021
BPR130: Credit risk RWAs overview	1 July 2021
BPR131: Standardised credit risk RWAs	1 October 2021
BPR132: Credit risk mitigation	1 October 2021
BPR133: IRB credit risk RWAs	1 October 2021
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 July 2021

In conditions of registration 22 to 25,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2021:

"loan-to-valuation measurement period" means a period of three calendar months ending on the last day of the third calendar month.

Changes to the Bank's conditions of registration since the last disclosure statement (for the six months ended 31 March 2022)

The Bank's conditions of registration have been amended to:

- refer to updated versions of BS11 and BS17 (effective 23 June 2022), BS13 (effective 1 July 2022) and BS11 (effective 5 September 2022);
- increase the prudential capital buffer to 3.5% from 2.5% as part of the implementation of the capital review decisions (effective 1 July 2022);
- remove restrictions of the payments of ordinary dividends and redemption of capital instruments (effective 1 July 2022).

Material non-compliance with conditions of registration: Condition of registration 1B – non-compliance with BPR120

As first reported in the disclosure statement for the year ended 30 September 2019, the Bank had not complied with condition of registration 1B in relation to the implementation of changes to 17 rating models and processes that were not approved by RBNZ. Applying the last RBNZ approved methodologies to the affected exposures as at 30 September 2019 would have decreased Risk Weighted Assets (RWA) by NZ$47 million (0.05%) in aggregate, which was not sufficient to affect the reported capital ratios.

The Bank's model compendium required under Part E1.5 of BPR120 was non-compliant as it included unapproved model changes. An updated model compendium was submitted to RBNZ in April 2021, and RBNZ confirmed the compendium as being compliant in October 2021.

All previously non-compliant models were submitted to RBNZ for approval with the last remaining approval received on 29 September 2022. As at 30 September 2022 all previously non-compliant models have been approved by RBNZ.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Other material matters

Climate related disclosures

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 amended the Financial Markets Conduct Act 2013 with effect from 27 October 2022. The amendments will require the Banking Group to produce Climate Related Disclosures (CRD) from the year ending 30 September 2024, in accordance with CRD reporting standards to be issued by the External Reporting Board. The Banking Group is actively preparing to produce CRD in accordance with this timetable.

New RBNZ capital requirements

RBNZ has released new bank capital adequacy requirements applying to New Zealand locally incorporated registered banks, which are set out in RBNZ's Banking Prudential Requirements documents. The new capital adequacy requirements are being implemented in stages during a transition period from October 2021 to July 2028. The key requirements are:

- The Banking Group's total capital requirement will increase to 18% of RWA, including tier 1 capital of at least 16% of RWA. Up to 2.5% of the tier 1 capital requirement can be made up of additional tier 1 (AT1) capital, with the remainder of the tier 1 requirement made up of common equity tier 1 (CET1) capital. The increased capital ratios requirement will be implemented progressively from 1 July 2022 to 1 July 2028. AT1 capital must consist of perpetual preference shares, which may be redeemable. The total capital requirement can also include tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The tier 1 capital requirement will include a CET1 prudential capital buffer of 9% of RWA. This will include: a 2% domestic, systemically important bank capital buffer; a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and a 5.5% capital conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at 30 September 2022, the Bank had NZ$2,241 million of AT1 instruments that will progressively lose eligible regulatory capital treatment over the transition period to 1 July 2028.
- As an internal ratings based approach accredited bank, the Banking Group's RWA outcomes will be increased to approximately 90% of what would be calculated under the standardised approach. This will be achieved by applying an 85% output floor from 1 January 2022, and increasing the credit RWA scalar from 1.06 to 1.20 from 1 October 2022. The effect of the scalar increase on the Banking Group's capital ratios and RWA is shown in the tables below.

RBNZ's reforms will result in a material increase in the level of capital that the Banking Group is required to hold. The reforms could have a material impact on the Banking Group and its business, including on its capital allocation and business planning.

RBNZ capital ratios

As at	30 Sep 2022	1 Oct 2022
Common equity tier 1 capital	12.4%	11.9%
Tier 1 capital	15.0%	14.4%
Total capital	16.4%	15.8%
Prudential capital buffer ratio	7.9%	7.4%

Risk weighted exposure or implied risk weighted exposure

As at	30 Sep 2022 NZ$m	1 Oct 2022 NZ$m
Exposures subject to the IRB or slotting approaches (scalar increased from 1.06 to 1.2)	58,981	66,723
Exposures subject to the standardised approach (scalar decreased from 1.06 to 1.0)	4,880	4,621
Credit risk supervisory adjustment (scalar increased from 1.06 to 1.20)	19,727	22,333
Output floor balancing item	5,922	-
Total credit risk	89,510	93,677
Market risk	6,596	6,596
Operational risk	11,571	11,571
Total	107,677	111,844

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Credit rating

The Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars.

Fitch Ratings changed the outlook on the Bank from Negative to Stable on 12 April 2021. S&P Global Ratings changed the outlook on the Bank from Negative to Stable on 7 June 2021.

As at 11 November 2022, the Bank's credit ratings are:

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

The following table describes the credit rating grades available. The descriptions are from S&P Global Ratings. 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.

	S&P Global Ratings	Moody's Investors Service	Fitch Ratings
Investment grade:			
Extremely strong capacity to meet financial commitments. Highest rating.	AAA	Aaa	AAA
Very strong capacity to meet financial commitments.	AA	Aa	AA
Strong ability to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.	A	A	A
Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.	BBB	Baa	BBB
Speculative grade:			
Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.	BB	Ba	BB
More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.	B	B	B
Currently vulnerable and dependent on favourable business, financial and economic conditions to meet financial commitments.	CCC	Caa	CCC
Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty.	CC to C	Ca	CC to C
Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed or similar action taken.	D	C	RD & D

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Historical summary of financial statements

Income statement

For the year ended 30 September	2022 NZ$m	2021 NZ$m	2020 NZ$m	2019 NZ$m	2018 NZ$m
Interest income	**5,811**	4,600	5,568	6,423	6,390
Interest expense	**(2,035)**	(1,176)	(2,306)	(3,179)	(3,240)
Net interest income	**3,776**	3,424	3,262	3,244	3,150
Non-interest income	**1,087**	765	807	946	1,126
Operating income	**4,863**	4,189	4,069	4,190	4,276
Operating expenses	**(1,653)**	(1,621)	(1,752)	(1,608)	(1,517)
Credit impairment release / (charge)	**(39)**	114	(403)	(101)	(55)
Profit before income tax	**3,171**	2,682	1,914	2,481	2,704
Income tax expense	**(882)**	(743)	(541)	(662)	(751)
Profit after income tax	**2,289**	1,939	1,373	1,819	1,953

Balance sheet

As at 30 September	2022 NZ$m	2021 NZ$m	2020 NZ$m	2019 NZ$m	2018 NZ$m
Total assets	**201,134**	184,769	179,744	169,416	159,012
Total individually impaired assets	**146**	155	361	285	321
Total impaired assets (i.e. Stage 3)	**734**	773	1,169	729	n/a
Total liabilities	**183,350**	167,877	163,875	154,986	145,903
Equity	**17,784**	16,892	15,869	14,430	13,109
Other items included in Equity					
Dividends paid	**(1,924)**	(908)	(9)	(411)	(4,611)
Share capital issued	**550**	-	-	-	3,000

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

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 27 commitments and contingent liabilities.

REGISTERED BANK DISCLOSURES

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2022 NZ$m	2021 NZ$m
Total interest earning and discount bearing assets	179,748	170,849
Total interest and discount bearing liabilities	145,687	136,312

Additional information on interest rate sensitivity

The following table represents 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.

2022	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[1] NZ$m
Assets							
Cash and cash equivalents	12,575	11,856	-	-	-	-	719
Settlement balances receivable	785	-	-	-	-	-	785
Collateral paid	1,672	1,672	-	-	-	-	-
Trading securities	7,228	1,202	446	532	1,002	4,046	-
Derivative financial instruments	15,481	-	-	-	-	-	15,481
Investment securities	11,357	13	369	1,157	1,267	8,550	1
Net loans and advances	147,067	61,177	13,092	30,814	28,880	13,673	(569)
Other financial assets	955	-	-	-	-	-	955
Total financial assets	197,120	75,920	13,907	32,503	31,149	26,269	17,372
Liabilities							
Settlement balances payable	4,933	3,847	-	-	-	-	1,086
Collateral received	1,962	1,962	-	-	-	-	-
Deposits and other borrowings	139,642	89,244	12,480	13,255	2,078	1,205	21,380
Derivative financial instruments	13,785	-	-	-	-	-	13,785
Debt issuances	21,023	1,644	2,272	2,281	3,410	11,416	-
Lease liabilities	229	12	11	23	44	139	-
Other financial liabilities	876	364	-	-	-	-	512
Total financial liabilities	182,450	97,073	14,763	15,559	5,532	12,760	36,763
Hedging instruments	-	(3,688)	3,893	8,833	(11,465)	2,427	-
Interest sensitivity gap	14,670	(24,841)	3,037	25,777	14,152	15,936	(19,391)

1 Excludes non-coupon bearing discounted financial assets and financial liabilities which are shown as repricing on their maturity date.

Reconciliation of mortgage related amounts

As at 30 September 2022	Note	NZ$m
Term loans - housing[1]	11	103,872
Less: housing loans made to corporate customers		(1,304)
Add: unsettled re-purchases of mortgages from the NZ Branch		5
On-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	102,573
Add: off-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	9,108
Total residential mortgage exposures subject to the IRB approach (per LVR analysis)	B4	111,681

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

B3. ASSET QUALITY

This section should be read in conjunction with the estimates, assumptions and judgements included in Note 1, Note 12 and Note 15 to the financial statements.

Movements in components of loss allowance – total

			Stage 3		
Net loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2021	155	314	56	60	585
Transfer between stages	18	(10)	(3)	(5)	-
New and increased provisions (net of collective provision releases)	26	7	6	87	126
Write-backs	-	-	-	(33)	(33)
Recoveries of amounts previously written off	-	-	-	(37)	(37)
Credit impairment charge / (release)	44	(3)	3	12	56
Bad debts written-off (excluding recoveries)	-	-	-	(37)	(37)
Add back recoveries of amounts previously written off	-	-	-	37	37
Discount unwind	-	-	-	5	5
As at 30 September 2022	199	311	59	77	646
Off-balance sheet credit related commitments - total					
As at 1 October 2021	64	39	4	15	122
Transfer between stages	7	(6)	(1)	-	-
New and increased provisions (net of collective provision releases)	(5)	(2)	-	(10)	(17)
Credit impairment charge / (release)	2	(8)	(1)	(10)	(17)
As at 30 September 2022	66	31	3	5	105

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

Gross loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2021	133,993	6,201	618	155	140,967
Net transfers in to each stage	-	1,155	113	5	1,273
Amounts drawn from new or existing facilities	36,577	1,151	88	146	37,962
Additions	36,577	2,306	201	151	39,235
Net transfers out of each stage	(1,251)	(2)	(18)	(2)	(1,273)
Amounts repaid	(29,638)	(1,608)	(213)	(121)	(31,580)
Deletions	(30,889)	(1,610)	(231)	(123)	(32,853)
Amounts written off	-	-	-	(37)	(37)
As at 30 September 2022	139,681	6,897	588	146	147,312
Loss allowance as at 30 September 2022	199	311	59	77	646
Off-balance sheet credit related commitments - total					
As at 1 October 2021	28,818	1,279	32	23	30,152
Net transfers in to each stage	110	21	4	11	146
New and increased facilities and drawn amounts repaid	6,815	79	2	(5)	6,891
Additions	6,925	100	6	6	7,037
Net transfers out of each stage	(23)	(123)	-	-	(146)
Reduced facilities and amounts drawn	(6,443)	(261)	(24)	(23)	(6,751)
Deletions	(6,466)	(384)	(24)	(23)	(6,897)
As at 30 September 2022	29,277	995	14	6	30,292
Loss allowance as at 30 September 2022	66	31	3	5	105

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

Overall, loss allowances are 0.42% of gross balances as at 30 September 2022, up from 0.41% as at 30 September 2021. The NZ$44 million (6.2%) increase in loss allowances was driven by an increase in the proportion of gross balances in Stage 2, and changes in the forward-looking economic scenarios as described in Note 12 allowance for expected credit losses.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – total

			Stage 3		
Net loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	162	347	79	106	694
Transfer between stages	16	(14)	(2)	-	-
New and increased provisions (net of collective provision releases)	(23)	(19)	(21)	67	4
Write-backs	-	-	-	(63)	(63)
Recoveries of amounts previously written off	-	-	-	(18)	(18)
Credit impairment release	(7)	(33)	(23)	(14)	(77)
Bad debts written-off (excluding recoveries)	-	-	-	(47)	(47)
Add back recoveries of amounts previously written off	-	-	-	18	18
Discount unwind	-	-	-	(3)	(3)
As at 30 September 2021	155	314	56	60	585
Off-balance sheet credit related commitments - total					
As at 1 October 2020	79	55	3	22	159
Transfer between stages	3	(4)	1	-	-
New and increased provisions (net of collective provision releases)	(18)	(12)	-	(7)	(37)
Credit impairment charge / (release)	(15)	(16)	1	(7)	(37)
As at 30 September 2021	64	39	4	15	122

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

Gross loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	120,110	11,820	808	361	133,099
Net transfers in to each stage	3,329	-	25	8	3,362
Amounts drawn from new or existing facilities	45,399	1,138	86	139	46,762
Additions	48,728	1,138	111	147	50,124
Net transfers out of each stage	(2)	(3,231)	(17)	(112)	(3,362)
Amounts repaid	(34,843)	(3,526)	(284)	(194)	(38,847)
Deletions	(34,845)	(6,757)	(301)	(306)	(42,209)
Amounts written off	-	-	-	(47)	(47)
As at 30 September 2021	133,993	6,201	618	155	140,967
Loss allowance as at 30 September 2021	155	314	56	60	585
Off-balance sheet credit related commitments - total					
As at 1 October 2020	29,501	1,455	19	41	31,016
Net transfers in to each stage	28	-	11	1	40
New and increased facilities and drawn amounts repaid	8,796	314	12	1	9,123
Additions	8,824	314	23	2	9,163
Net transfers out of each stage	(9)	(31)	-	-	(40)
Reduced facilities and amounts drawn	(9,498)	(459)	(10)	(20)	(9,987)
Deletions	(9,507)	(490)	(10)	(20)	(10,027)
As at 30 September 2021	28,818	1,279	32	23	30,152
Loss allowance as at 30 September 2021	64	39	4	15	122

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

Overall, loss allowances are 0.41% of gross balances as at 30 September 2021, down from 0.52% as at 30 September 2020. The NZ$146 million (17.1%) decrease in loss allowances was driven by a decrease in the proportion of gross balances in Stage 2 and Stage 3, and changes in the forward-looking economic scenarios.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

Net loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2021	23	53	17	9	102
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	35	33	15	3	86
Write-backs	-	-	-	(2)	(2)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge	40	28	15	1	84
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 30 September 2022	63	81	32	10	186
Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2021	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2022	-	-	-	-	-

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

Gross loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2021	94,857	1,846	356	19	97,078
Net transfers in to each stage	-	893	103	-	996
Amounts drawn from new or existing facilities	25,039	652	8	8	25,707
Additions	25,039	1,545	111	8	26,703
Net transfers out of each stage	(994)	-	-	(2)	(996)
Amounts repaid	(19,699)	(428)	(75)	(10)	(20,212)
Deletions	(20,693)	(428)	(75)	(12)	(21,208)
Amounts written off	-	-	-	-	-
As at 30 September 2022	99,203	2,963	392	15	102,573
Loss allowance as at 30 September 2022	63	81	32	10	186
Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2021	9,040	40	1	-	9,081
Net transfers in to each stage	-	21	-	-	21
New and increased facilities and drawn amounts repaid	1,654	12	-	-	1,666
Additions	1,654	33	-	-	1,687
Net transfers out of each stage	(21)	-	-	-	(21)
Reduced facilities and amounts drawn	(1,624)	(15)	-	-	(1,639)
Deletions	(1,645)	(15)	-	-	(1,660)
As at 30 September 2022	9,049	58	1	-	9,108
Loss allowance as at 30 September 2022	-	-	-	-	-

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

The NZ$84 million (82.4%) increase in loss allowances on residential mortgage exposures is primarily driven by an increase in the proportion of gross balances in Stage 2, and changes in the forward-looking economic scenarios as described in Note 12 allowance for expected credit losses. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 94% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80% (refer to page 92).

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

			Stage 3		
Net loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	20	63	29	8	120
Transfer between stages	6	(5)	(1)	-	-
New and increased provisions (net of collective provision releases)	(3)	(5)	(11)	5	(14)
Write-backs	-	-	-	(4)	(4)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge / (release)	3	(10)	(12)	1	(18)
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 30 September 2021	23	53	17	9	102
Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2020	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2021	-	-	-	-	-

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

Gross loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	81,057	5,859	512	24	87,452
Net transfers in to each stage	3,175	-	-	5	3,180
Amounts drawn from new or existing facilities	33,250	588	5	12	33,855
Additions	36,425	588	5	17	37,035
Net transfers out of each stage	-	(3,164)	(17)	1	(3,180)
Amounts repaid	(22,625)	(1,437)	(144)	(23)	(24,229)
Deletions	(22,625)	(4,601)	(161)	(22)	(27,409)
Amounts written off	-	-	-	-	-
As at 30 September 2021	94,857	1,846	356	19	97,078
Loss allowance as at 30 September 2021	23	53	17	9	102
Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2020	8,793	73	-	-	8,866
Net transfers in to each stage	28	-	-	-	28
New and increased facilities and drawn amounts repaid	2,691	12	2	-	2,705
Additions	2,719	12	2	-	2,733
Net transfers out of each stage	-	(28)	-	-	(28)
Reduced facilities and amounts drawn	(2,472)	(17)	(1)	-	(2,490)
Deletions	(2,472)	(45)	(1)	-	(2,518)
As at 30 September 2021	9,040	40	1	-	9,081
Loss allowance as at 30 September 2021	-	-	-	-	-

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

While gross balances have increased, there has been a decrease in the proportion of gross balances in Stage 2 and Stage 3. The NZ$18 million (15.0%) decrease in loss allowances on residential mortgage exposures is primarily driven by changes in the forward-looking economic scenarios. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 94% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80%.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

Net loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2021	10	49	17	6	82
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(5)	(1)	-	29	23
Write-backs	-	-	-	(4)	(4)
Recoveries of amounts previously written off	-	-	-	(11)	(11)
Credit impairment charge / (release)	-	(6)	-	14	8
Bad debts written-off (excluding recoveries)	-	-	-	(26)	(26)
Add back recoveries of amounts previously written off	-	-	-	11	11
Discount unwind	-	-	-	-	-
As at 30 September 2022	10	43	17	5	75
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2021	15	12	3	-	30
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(5)	1	-	-	(4)
Credit impairment release	(2)	(2)	-	-	(4)
As at 30 September 2022	13	10	3	-	26

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

Gross loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2021	2,271	132	34	9	2,446
Net transfers in to each stage	-	-	10	1	11
Amounts drawn from new or existing facilities	420	24	3	30	477
Additions	420	24	13	31	488
Net transfers out of each stage	(9)	(2)	-	-	(11)
Amounts repaid	(488)	(43)	(16)	(6)	(553)
Deletions	(497)	(45)	(16)	(6)	(564)
Amounts written off	-	-	-	(26)	(26)
As at 30 September 2022	2,194	111	31	8	2,344
Loss allowance as at 30 September 2022	10	43	17	5	75
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2021	5,091	38	13	-	5,142
Net transfers in to each stage	-	-	3	-	3
New and increased facilities and drawn amounts repaid	203	3	2	-	208
Additions	203	3	5	-	211
Net transfers out of each stage	(2)	(1)	-	-	(3)
Reduced facilities and amounts drawn	(533)	(13)	(8)	-	(554)
Deletions	(535)	(14)	(8)	-	(557)
As at 30 September 2022	4,759	27	10	-	4,796
Loss allowance as at 30 September 2022	13	10	3	-	26

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

The NZ$11 million (9.8%) decrease in loss allowances is driven by a decrease in overall gross balances, partially offset by the effect of changes in the forward-looking economic scenarios as described in Note 12 allowance for expected credit losses.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

			Stage 3		
Net loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	11	60	26	8	105
Transfer between stages	6	(5)	(1)	-	-
New and increased provisions (net of collective provision releases)	(7)	(6)	(8)	37	16
Write-backs	-	-	-	(5)	(5)
Recoveries of amounts previously written off	-	-	-	(15)	(15)
Credit impairment charge / (release)	(1)	(11)	(9)	17	(4)
Bad debts written-off (excluding recoveries)	-	-	-	(34)	(34)
Add back recoveries of amounts previously written off	-	-	-	15	15
Discount unwind	-	-	-	-	-
As at 30 September 2021	10	49	17	6	82
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2020	19	13	3	-	35
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(7)	2	-	-	(5)
Credit impairment release	(4)	(1)	-	-	(5)
As at 30 September 2021	15	12	3	-	30

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

Gross loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	2,570	165	49	11	2,795
Net transfers in to each stage	-	-	10	3	13
Amounts drawn from new or existing facilities	833	44	7	38	922
Additions	833	44	17	41	935
Net transfers out of each stage	(2)	(11)	-	-	(13)
Amounts repaid	(1,130)	(66)	(32)	(9)	(1,237)
Deletions	(1,132)	(77)	(32)	(9)	(1,250)
Amounts written off	-	-	-	(34)	(34)
As at 30 September 2021	2,271	132	34	9	2,446
Loss allowance as at 30 September 2021	10	49	17	6	82
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2020	5,183	47	15	-	5,245
Net transfers in to each stage	-	-	2	-	2
New and increased facilities and drawn amounts repaid	627	5	2	-	634
Additions	627	5	4	-	636
Net transfers out of each stage	(1)	(1)	-	-	(2)
Reduced facilities and amounts drawn	(718)	(13)	(6)	-	(737)
Deletions	(719)	(14)	(6)	-	(739)
As at 30 September 2021	5,091	38	13	-	5,142
Loss allowance as at 30 September 2021	15	12	3	-	30

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

The NZ$28 million (20.0%) decrease in loss allowances is primarily driven by changes in the forward-looking economic scenarios.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – corporate exposures[1]

Net loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2021	122	212	22	45	401
Transfer between stages	8	-	(3)	(5)	-
New and increased provisions (net of collective provision releases)	(4)	(25)	(9)	55	17
Write-backs	-	-	-	(27)	(27)
Recoveries of amounts previously written off	-	-	-	(26)	(26)
Credit impairment charge / (release)	4	(25)	(12)	(3)	(36)
Bad debts written-off (excluding recoveries)	-	-	-	(11)	(11)
Add back recoveries of amounts previously written off	-	-	-	26	26
Discount unwind	-	-	-	5	5
As at 30 September 2022	126	187	10	62	385
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2021	49	27	1	15	92
Transfer between stages	4	(3)	(1)	-	-
New and increased provisions (net of collective provision releases)	-	(3)	-	(10)	(13)
Credit impairment charge / (release)	4	(6)	(1)	(10)	(13)
As at 30 September 2022	53	21	-	5	79

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

Gross loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2021	36,865	4,223	228	127	41,443
Net transfers in to each stage	-	262	-	4	266
Amounts drawn from new or existing facilities	11,118	475	77	108	11,778
Additions	11,118	737	77	112	12,044
Net transfers out of each stage	(248)	-	(18)	-	(266)
Amounts repaid	(9,451)	(1,137)	(122)	(105)	(10,815)
Deletions	(9,699)	(1,137)	(140)	(105)	(11,081)
Amounts written off	-	-	-	(11)	(11)
As at 30 September 2022	38,284	3,823	165	123	42,395
Loss allowance as at 30 September 2022	126	187	10	62	385
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2021	14,687	1,201	18	23	15,929
Net transfers in to each stage	110	-	1	11	122
New and increased facilities and drawn amounts repaid	4,958	64	-	(5)	5,017
Additions	5,068	64	1	6	5,139
Net transfers out of each stage	-	(122)	-	-	(122)
Reduced facilities and amounts drawn	(4,286)	(233)	(16)	(23)	(4,558)
Deletions	(4,286)	(355)	(16)	(23)	(4,680)
As at 30 September 2022	15,469	910	3	6	16,388
Loss allowance as at 30 September 2022	53	21	-	5	79

1 Also includes all other non-retail exposure classes in net loans and advances and off balance sheet credit related commitments to reconcile to the respective totals for the Banking Group.

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

The NZ$29 million (5.9%) decrease in loss allowances is driven by a decrease in the amount and proportion of gross balances in Stage 2 and Stage 3, partially offset by an increase in the amount of individually assessed loss allowances.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – corporate exposures[1]

Net loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	131	224	24	90	469
Transfer between stages	4	(4)	-	-	-
New and increased provisions (net of collective provision releases)	(13)	(8)	(2)	25	2
Write-backs	-	-	-	(54)	(54)
Recoveries of amounts previously written off	-	-	-	(3)	(3)
Credit impairment release	(9)	(12)	(2)	(32)	(55)
Bad debts written-off (excluding recoveries)	-	-	-	(13)	(13)
Add back recoveries of amounts previously written off	-	-	-	3	3
Discount unwind	-	-	-	(3)	(3)
As at 30 September 2021	122	212	22	45	401
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2020	60	42	-	22	124
Transfer between stages	-	(1)	1	-	-
New and increased provisions (net of collective provision releases)	(11)	(14)	-	(7)	(32)
Credit impairment charge / (release)	(11)	(15)	1	(7)	(32)
As at 30 September 2021	49	27	1	15	92

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

Gross loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	36,483	5,796	247	326	42,852
Net transfers in to each stage	154	-	15	-	169
Amounts drawn from new or existing facilities	11,316	506	74	89	11,985
Additions	11,470	506	89	89	12,154
Net transfers out of each stage	-	(56)	-	(113)	(169)
Amounts repaid	(11,088)	(2,023)	(108)	(162)	(13,381)
Deletions	(11,088)	(2,079)	(108)	(275)	(13,550)
Amounts written off	-	-	-	(13)	(13)
As at 30 September 2021	36,865	4,223	228	127	41,443
Loss allowance as at 30 September 2021	122	212	22	45	401
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2020	15,525	1,335	4	41	16,905
Net transfers in to each stage	-	-	9	1	10
New and increased facilities and drawn amounts repaid	5,478	297	8	1	5,784
Additions	5,478	297	17	2	5,794
Net transfers out of each stage	(8)	(2)	-	-	(10)
Reduced facilities and amounts drawn	(6,308)	(429)	(3)	(20)	(6,760)
Deletions	(6,316)	(431)	(3)	(20)	(6,770)
As at 30 September 2021	14,687	1,201	18	23	15,929
Loss allowance as at 30 September 2021	49	27	1	15	92

1 Also includes all other non-retail exposure classes in net loans and advances and off balance sheet credit related commitments to reconcile to the respective totals for the Banking Group.

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

The NZ$100 million (16.9%) decrease in loss allowances is primarily driven by changes in the forward-looking economic scenarios and a decrease in the proportion of gross balances in Stage 2 and Stage 3.

B3. ASSET QUALITY (continued)

Past due assets

	2022				2021			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Less than 30 days past due	456	81	322	859	402	76	237	715
At least 30 days but less than 60 days past due	163	10	168	341	122	13	157	292
At least 60 days but less than 90 days past due	119	6	14	139	125	8	42	175
At least 90 days past due	355	20	77	452	325	21	26	372
Total past due but not individually impaired	1,093	117	581	1,791	974	118	462	1,554

Other asset quality information

Undrawn facilities with impaired customers	-	-	6	6	-	-	23	23
Other assets under administration	4	1	-	5	2	1	-	3

Asset quality for financial assets designated at fair value

The Banking Group does not have any loans and advances designated at fair value.

REGISTERED BANK DISCLOSURES

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

RBNZ capital ratios

	RBNZ minimum		Banking Group		Bank (Solo Consolidated)	
	2022	2021	2022	2021	2022	2021
Common equity tier 1 capital	4.5%	4.5%	**12.4%**	13.4%	**12.2%**	13.1%
Tier 1 capital	6.0%	6.0%	**15.0%**	16.2%	**14.8%**	15.9%
Total capital	8.0%	8.0%	**16.4%**	16.9%	**16.2%**	16.6%
Prudential capital buffer ratio	3.5%	2.5%	**7.9%**	8.9%	**n/a**	n/a

Capital

As at 30 September 2022	NZ$m
Tier 1 capital	
Common equity tier 1 (CET1) capital	
Paid up ordinary shares issued by the Bank	**11,588**
Retained earnings (net of appropriations)[1]	**5,291**
Accumulated other comprehensive income and other disclosed reserves[2]	**48**
Less deductions from common equity tier 1 capital	
Goodwill and intangible assets, net of associated deferred tax liabilities	**(3,099)**
Deferred tax assets less deferred tax liabilities relating to temporary differences	**(386)**
Cash flow hedge reserve	**(26)**
Defined benefit superannuation plan surplus	**(15)**
Expected losses to the extent greater than total eligible allowances for impairment	**(63)**
Common equity tier 1 capital	**13,338**
Additional tier 1 (AT1) capital	
NZD 550m preference shares[3]	**550**
Transitional AT1 capital instruments	
NZD 300m preference shares[3]	**300**
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[4]	**1,003**
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[4]	**938**
Additional tier 1 capital	**2,791**
Total tier 1 capital	**16,129**
Tier 2 capital	
NZD 600m subordinated notes[4]	**600**
USD 500m subordinated notes[4]	**875**
Eligible impairment allowance in excess of expected loss	**87**
Tier 2 capital	**1,562**
Total capital	**17,691**

1 Includes a deduction for dividends on AT1 capital instruments approved by the Bank's board, but not yet paid as at 30 September 2022, as required by BPR110 *Capital Definitions*. These dividends are not recognised under NZ GAAP because the payment of the dividends remains at the Bank's discretion until payment is made.
2 Includes the FVOCI reserve of NZ$22 million and the cash flow hedging reserve of NZ$26 million as at 30 September 2022.
3 Classified as equity on the balance sheet under NZ GAAP.
4 Classified as a liability on the balance sheet under NZ GAAP.

Transitional AT1 capital instruments

Certain instruments issued by the Bank qualify as transitional AT1 capital instruments and are subject to phase-out under BPR110. Fixing the base at the aggregate nominal amount of such instruments outstanding as at 30 September 2021 (NZ$2,741 million), their recognition is capped at 87.5% of that base from 1 January 2022; 75% from 1 January 2023; 62.5% from 1 January 2024; 50% from 1 January 2025; 37.5% from 1 January 2026; 25% from 1 January 2027; 12.5% from 1 January 2028; and from 1 July 2028 onwards these instruments will not be included in regulatory capital.

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

Capital requirements of the Banking Group

As at 30 September 2022	Total exposure after credit risk mitigation NZ$m	Risk weighted exposure or implied risk weighted exposure NZ$m	Total capital requirement NZ$m
Exposures subject to the internal ratings based approach	167,215	47,109	3,769
Specialised lending exposures subject to the slotting approach	13,843	11,872	950
Exposures subject to the standardised approach	35,999	4,880	390
Credit risk supervisory adjustment	n/a	19,727	1,578
Output floor balancing item	n/a	5,922	474
Total credit risk	217,057	89,510	7,161
Market risk	n/a	6,596	528
Operational risk, calculated using the standardised approach	n/a	11,571	926
Total	n/a	107,677	8,615

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

IRB credit exposures by exposure class and customer credit rating

As at 30 September 2022	Probability of default %	Total value NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted assets NZ$m	Minimum capital requirement NZ$m
Corporate							
0 - 2	0.05	65,541	8,693	62	28	2,590	207
3 - 4	0.31	49,800	25,594	38	41	11,206	896
5	1.01	10,857	9,651	31	54	5,500	440
6	2.23	2,852	2,566	34	76	2,065	165
7 - 8	14.02	1,034	893	34	142	1,342	107
Default	100.00	259	261	38	90	247	21
Total corporate exposures[1]	1.31	130,343	47,658	41	45	22,950	1,836
Residential mortgages							
0 - 3	0.20	42,062	42,461	12	5	2,383	191
4	0.44	45,334	45,464	19	15	7,467	597
5	0.89	21,046	21,114	24	31	6,992	559
6	1.98	2,677	2,680	25	59	1,670	134
7 - 8	4.90	149	149	25	91	144	11
Default	100.00	413	413	13	2	8	1
Total residential mortgage exposures[2]	0.84	111,681	112,281	18	16	18,664	1,493
Other retail							
0 - 2	0.10	525	528	77	49	276	22
3 - 4	0.27	4,280	4,358	78	56	2,572	206
5	1.11	1,008	1,011	77	83	886	71
6	2.61	499	527	81	103	573	46
7 - 8	7.65	786	811	88	136	1,170	94
Default	100.00	41	41	81	38	18	1
Total other retail exposures	1.94	7,139	7,276	79	71	5,495	440
Total credit risk exposures subject to the IRB approach[3]	1.02	249,163	167,215	27	27	47,109	3,769

1 The credit risk supervisory adjustment above includes NZ$5,583 million of RWA for corporate exposures. This increases the pre-scalar exposure–weighted risk weight to 56% and the minimum capital requirement to NZ$2,283 million.

2 The credit risk supervisory adjustment above includes NZ$14,144 million of RWA for residential mortgage exposures. This increases the pre-scalar exposure-weighted risk weight to 28% and the minimum capital requirement to NZ$2,625 million.

3 The credit risk supervisory adjustment and output floor balancing item above total NZ$25,649 million of RWA. This increases the pre-scalar IRB exposure-weighted risk weight to 41% and the related minimum capital requirement to NZ$5,821 million.

REGISTERED BANK DISCLOSURES

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

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

As at 30 September 2022	Total value NZ$m	Exposure at default NZ$m
Undrawn commitments and other off-balance sheet contingent liabilities		
Corporate	13,047	12,201
Residential mortgages	9,108	9,557
Other retail	4,796	4,872
Counterparty credit risk on derivatives and securities financing transactions		
Corporate	84,608	3,364
Total	111,559	29,994

Additional mortgage information

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

As at 30 September 2022	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	56,680	6,857	63,537
Exceeds 60% and not 70%	19,636	1,039	20,675
Exceeds 70% and not 80%	20,028	927	20,955
Does not exceed 80%	96,344	8,823	105,167
Exceeds 80% and not 90%	4,688	101	4,789
Exceeds 90%	1,541	184	1,725
Total	102,573	9,108	111,681

Specialised lending subject to the slotting approach

As at 30 September 2022	Exposures after credit risk mitigation NZ$m	Risk weight %	Risk weighted assets NZ$m	Minimum capital requirement NZ$m
On-balance sheet exposures				
Strong	6,741	70	5,002	400
Good	5,123	90	4,887	391
Satisfactory	635	115	774	62
Weak	56	250	150	12
Default	52	-	-	-
Off-balance sheet exposures by average risk weight				
Undrawn commitments and other off-balance sheet exposures	1,236	211	1,059	85
Total exposures subject to the slotting approach	13,843	81	11,872	950

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

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

Credit risk exposures subject to the standardised approach

As at 30 September 2022	Exposure or principal amount NZ$m	Average credit conversion factor %	Exposure after credit risk mitigation NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum capital requirement NZ$m
On-balance sheet exposures						
Cash and gold bullion			154	-	-	-
Sovereign and central banks			19,906	-	-	-
Multilateral development banks and other international organisations			4,824	-	-	-
Public sector entities			1,627	20	345	28
Banks			2,655	39	1,105	88
Corporate			73	102	79	6
Past due assets			-	150	1	-
Other assets			1,487	100	1,575	126
Equity exposures						
Unlisted equity holdings			1	400	5	-
Off-balance sheet exposures						
Total off balance sheet exposures	1,997	54	1,073	54	610	49
Counterparty credit risk						
Foreign exchange contracts	240,337	n/a	2,718	21	619	50
Interest rate contracts	1,344,580	n/a	1,104	11	131	10
Other	3,347	n/a	377	25	101	8
Credit valuation adjustment	n/a	n/a	n/a	n/a	309	25
Total exposures subject to the standardised approach			35,999	13	4,880	390

Credit valuation adjustment

The IRB and standardised tables above include an aggregate Credit Valuation Adjustment (CVA) capital charge of NZ$54 million, and aggregate implied risk weighted exposures for the CVA of NZ$672 million.

Credit risk mitigation

As at 30 September 2022, under the IRB approach, the Banking Group had NZ$406 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 value of other 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.

Effect of standardised floor on total risk-weighted exposures for credit risk

	Risk weighted assets	
As at 30 September 2022	Calculated for compliance purposes NZ$m	Calculated using standardised approach NZ$m
Exposures subject to the IRB or slotting approaches[1]	58,981	99,565
Credit risk supervisory adjustment[1]	19,727	n/a
Subtotal[1]	78,708	99,565
Standardised floor at 85% of standardised RWA	n/a	84,630
Output floor adjusting item	5,922	n/a
IRB and slotting RWA with standardised floor applied	84,630	84,630
Exposures subject to the standardised approach[1]	4,880	
Total credit risk	89,510	

1 RWA calculated for compliance purposes includes a scalar of 1.06 as required by BPR 130 *Credit Risk RWAs Overview*.

In accordance with BPR 130 *Credit Risk RWAs Overview*, IRB and slotting RWA with standardised floor applied is calculated as the greater of RWA for compliance purposes, and 85% of the total RWA for such exposures calculated using the standardised approach.

REGISTERED BANK DISCLOSURES

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

Market risk

The aggregate market risk exposures below have been calculated in accordance with BPR140: *Market Risk*. The peak end-of-day market risk exposures are for the six months ended 30 September 2022.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end	Peak	Period end	Peak
As at 30 September 2022	NZ$m	NZ$m	NZ$m	NZ$m
Interest rate risk	6,571	6,757	526	541
Foreign currency risk	24	93	2	7
Equity risk	1	1	-	-

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. The Banking Group's ICAAP 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. Other material risks identified by the Banking Group include fixed asset risk and deferred acquisition cost risk. The Banking Group's internal capital allocation for these other material risks is NZ$296 million (2021: NZ$313 million).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2022	2021	2022	2021
Common equity tier 1 capital	12.3%	12.3%	12.0%	12.0%
Tier 1 capital	14.0%	14.3%	14.0%	14.1%
Total capital	18.2%	18.4%	18.9%	18.6%

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

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

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. Where the Overseas Banking Group is not accredited to use the AIRB methodology the Overseas Banking Group applies the standardised approach.
- the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 30 September 2022 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2022. The Overseas Banking Group’s Pillar 3 disclosure document for the quarter ended 30 September 2022, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Regulatory liquidity ratios

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

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. From 1 January 2022, the minimum amount of core funding was increased from 50% to 75% of a bank’s total loans. The Banking Group must maintain its core funding ratio above the regulatory minimum on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 22	30 Jun 22
Quarterly average 1-week mismatch ratio	7.6%	7.3%
Quarterly average 1-month mismatch ratio	6.7%	6.4%
Quarterly average core funding ratio	91.5%	91.1%

B5. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

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

The exposure information in the table below excludes exposures to:

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

	As at 30 Sep 22	Peak end of day over 6 months to 30 Sep 22
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	-	1
with a long-term credit rating of A- or A3 or above, or its equivalent	-	1
- 10% to less than 15% of CET1 capital	-	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1 capital	2	2
with a long-term credit rating of A- or A3 or above, or its equivalent	2	2
- 10% to less than 15% of CET1 capital	2	2
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

REGISTERED BANK DISCLOSURES

B6. CREDIT EXPOSURES TO CONNECTED PERSONS

	Connected persons		Non-bank connected persons	
	Amount NZ$m	% of Tier 1 Capital	Amount NZ$m	% of Tier 1 Capital
As at 30 September 2022				
Gross amount, before netting	15,304	94.9%	<$1m	0.0%
Amount netted	12,215	75.7%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	3,089	19.2%	<$1m	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2022				
Gross amount, before netting	14,443	89.5%	<$1m	0.0%
Amount netted	10,616	65.8%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	3,827	23.7%	<$1m	0.0%

Credit exposures to connected persons

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

Peak end-of-day aggregate exposure

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

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2022 was 60%. No limit changes have occurred over the year to 30 September 2022. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier 1 capital that applies to the aggregate credit exposure to non-bank connected persons.

Additional requirements for aggregate credit exposure to connected persons

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

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

NZ$262 million of contingent exposures of the Banking Group to connected persons arose from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) as at 30 September 2022.

Loss allowance for credit-impaired credit exposures to connected persons

There were no loss allowances provided against credit exposures to connected persons as at 30 September 2022.

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

Insurance business

The Banking Group does not conduct any insurance business.

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

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

Activity	Details
Custodial	The Banking Group operates two custodians as at 30 September 2022: • ANZ Custodial Services New Zealand Limited, which is the appointed custodian for private banking's (ANZ Private) Discretionary Investment Management Service, Wholesale Investment Services and Trading Service; and • ANZ New Zealand Investments Nominees Limited, which is the appointed custodian for direct holdings of securities by various wholesale customer portfolios managed by ANZ New Zealand Investments Limited (ANZ Investments).
Funds management	The Banking Group provides the following funds management services: • *Managed Investment Schemes (MIS):* The Banking Group's subsidiaries ANZ Investments and ANZ Investment Services (New Zealand) Limited (ANZIS) act as manager for a number of managed investment schemes. ANZ Investments holds an 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, retail and wholesale schemes. ANZIS is the issuer and manager of the Bonus Bonds Scheme and the ANZ PIE Fund. ANZ National Staff Superannuation Limited, also a subsidiary of the Banking Group, is the trustee and manager of the ANZ National Retirement Scheme, which is a restricted workplace savings scheme. • *Discretionary Investment Management Service (DIMS):* The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. • *Other investment portfolios:* ANZ Investments also manages investment portfolios for a number of schemes where the scheme manager or trustee has outsourced investment management services to ANZ Investments. These schemes are typically corporate superannuation schemes.
Other fiduciary activities	ANZ Investments, through its subsidiary OneAnswer Nominees Limited, offers the OneAnswer Portfolio Service. The associated administration and custody services are provided by FNZ Limited and FNZ Custodians Limited respectively (together FNZ). FNZ is not a member or related party of the Banking Group.

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

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

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

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

- Vero Insurance New Zealand Limited for home, contents, motor vehicle, boat and lifestyle block insurance;
- AWP Services New Zealand Limited, trading as Allianz Partners, for premium card travel insurance. Policies are underwritten by Allianz Australia Insurance Limited (incorporated in Australia) trading as Allianz New Zealand;
- Cigna Life Insurance New Zealand Limited for life & living insurance; and
- Crombie Lockwood (NZ) Limited is our business insurance broker.

Arrangements to ensure no adverse impacts arising from the above activities

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

REGISTERED BANK DISCLOSURES

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

Amounts represented by funds management and securitisation activities

	2022 NZ$m	2021 NZ$m
Funds under management:		
KiwiSaver[1]	17,076	19,051
Bonus Bonds Scheme[2,6]	-	872
Other managed funds[1]	3,353	3,842
ANZ PIE Fund[2]	2,292	1,724
DIMS[3]	7,490	8,868
Other investment portfolios[4]	4,102	4,686
Total funds under management	34,313	39,043
Funds under custodial arrangements	7,519	8,942
Other funds held or managed subject to fiduciary responsibilities[5]	1,710	1,811
Outstanding securitised assets originated by the Banking Group - carrying amount of covered bonds	4,082	4,248

1 Managed by ANZ Investments.
2 Managed by ANZIS.
3 Managed by the Bank.
4 Comprises portfolios managed by ANZ Investments, and the ANZ National Retirement Scheme managed by ANZ National Staff Superannuation Limited.
5 Not included in funds under management.
6 Funds under management for the Bonus Bonds Scheme is net of NZ$65 million (2021: nil) of distributions payable to bondholders. Further information about the wind-up of the Bonus Bonds Scheme is available at the website bonusbonds.co.nz.

Financial services provided to entities conducting the above activities

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

Assets purchased from entities conducting the above activities

Over the year ended 30 September 2022, any assets purchased by any member of the Banking Group from entities that conduct the activities in a), b) or c) above have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

The peak end-of day aggregate amount of funding provided to entities that provide services relating to the Banking Group's involvement in the above activities over the year ended 30 September 2022 was NZ$0.3 million (2021: NZ$0.1 million) which was 0.0% (2021: 0.0%) of the Banking Group's tier 1 capital and 0.1% (2021: 0.1%) of the total assets of the individual entity.

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

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

B8. RISK MANAGEMENT POLICIES

Information about risk

The evolving macroeconomic and geopolitical conditions have continued to challenge our operating environment. Our Risk Management Framework (RMF) has remained robust in the face of these challenges, enabling the sound management of our business.

The Board is ultimately responsible for establishing and overseeing the Banking Group's RMF, which is supported by the Banking Group's underlying systems, structures, policies, procedures, processes and people. The Board has delegated authority to the Bank's Board Risk Committee (BRC) to develop and monitor compliance with the Banking Group's risk management policies. The Committee reports regularly to the Board on its activities. The key pillars of the Banking Group's RMF include:

- The Risk Management Strategy (RMS), which describes the approach for managing risks arising from the Banking Group's purpose and strategy. The RMS includes: how the risk function is structured to support the Banking Group's purpose and strategy; the values, attitudes and behaviours required of employees in delivering on strategic priorities; a description of each material risk; and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Banking Group identifies, measures, evaluates, monitors, reports and then either controls or mitigates material risks and the oversight mechanism and/or committees in place.
- The Risk Appetite Statement (RAS), which sets out the Board's expectations regarding, for each material risk, the maximum level of risk the Banking Group is willing to accept in pursuing its strategic objectives and its operating plans considering its stakeholders', depositors' and customers' interests.
- The Risk Culture principles, which are a subset of the Banking Group's organisational culture and an intrinsic part of the Banking Group's RMF.

The material risks facing the Banking Group per our RMS, and how these risks are managed, are summarised below.

Key material risks

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

Risk type	Description	Managing the risk
Strategic Risk	Risks that affect or are created by an organisation's business strategy and strategic objectives. A possible source of loss might arise from the pursuit of an unsuccessful business plan. For example, Strategic risk might arise from making poor strategic business decisions, from the sub-standard execution of decisions, or from a failure to respond well to changes in a business environment.	Strategic risks are discussed and managed through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Where the strategy leads to an increase in other Key Material Risks (e.g. Credit Risk, Market Risk, Operational Risk) the risk management strategies associated with these risks form the primary controls.
Capital Adequacy Risk	The risk of loss arising from the Banking Group failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors, rating agencies, etc.) to support the Banking Group's consolidated operations and risk appetite.	We pursue an active approach to Capital Management, which is designed to protect the interests of depositors, creditors and stakeholders through ongoing review, and Board approval, of the level and composition of our capital base against key policy objectives. The ICAAP also operates as part of the management framework for this risk.
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 our lending to business and retail customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies. Includes: • concentrations of credit risk; • intra-day credit risk; • credit risk to bank counterparties; and • related party credit risk.	Our Credit Risk framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle from initial approval and risk grading, through ongoing management and problem debt management. The effectiveness of the Credit Risk framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.
Liquidity and Funding Risk	The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	Key principles in managing our Liquidity and Funding Risk include: • the Banking Group's short term liquidity scenario modelling stresses cash flow projections against multiple survival horizons' over which the Banking Group is required to remain cash flow positive; and • longer-term scenarios are in place that measure the structural liquidity position of the balance sheet.

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Risk type	Description	Managing the risk
Market Risk	The risk stems from our trading and balance sheet activities and is the risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • fluctuations in bond, commodity or equity prices.	We have a detailed market risk management and control framework to support our trading and balance sheet activities, which incorporates an independent risk measurement approach to quantify the magnitude of market risk within the trading and balance sheet portfolios. This approach, along with related analysis, identifies the range of possible outcomes, that can be expected over a given period of time, and establishes the likelihood of those outcomes and allocates an appropriate amount of capital to support these activities. The Banking Group's key tools to measure and manage Market Risk on a daily basis include value at risk, earnings at risk, interest rate sensitivities, market value loss limits and stress testing.
Operational Risk	The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, but excludes strategic risk.	We manage Compliance and Operational Risk in the best interests of our customers and the community and to meet expectations of the regulators. The Compliance and Operational Risk Principles (Level 1) establish the fundamental requirements at the Banking Group which inform policies, processes, and procedure development of the Banking Group's management of Compliance and Operational Risk, through timely and appropriate identification, action and monitoring. It is part of the Banking Group's RMF and the Banking Group's I.AM (Identify, Act, Monitor) Framework (Level 2). We take a risk-based approach to the management of operational risk and obligations. This enables the Banking Group to be consistent in proactively identifying, assessing, managing, reporting and escalating operational risk-related risk exposures. Day-to-day management of operational risk is the responsibility of business unit line management and staff. Risk management, supported by a strong Risk Culture, helps to seek to ensure all staff are thinking about and managing risk on a daily basis – "Risk is Everyone's Responsibility".
	Compliance Risk The risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to the Banking Group's businesses.	Key features of how we manage Compliance Risk as part of our Operational Risk and Compliance Framework include: • centralised management of key obligations; • an emphasis on identification of changing regulations and the business environment, to enable proactive assessment of emerging compliance risk; and • recognition of incident management as a separate element to enhance the Banking Group's ability to identify, manage and report on incidents/breaches in a timely manner.
	Conduct Risk The risk of loss or damage arising from the failure of the Banking Group, its employees or agents to appropriately consider the interests of customers, the integrity of the financial markets and the expectations of the community in conducting its business activities. The risk may arise not only from deliberate or negligent actions of individual employees, but may also be inadvertent and caused by inadequacies in the Banking Group's systems, processes and procedures.	Our approach to managing Conduct Risk is to seek to ensure that risks to customers, community and market integrity are identified, assessed, measured, evaluated, treated, monitored and reported with appropriate governance and oversight. The articulation of Conduct Risk as a Level 1 Risk Theme under the new Non-Financial Risk (NFR) model will help manage Conduct Risk as a key material risk for the Banking Group. To support the NFR model, the Banking Group has developed a Conduct Risk Framework and Conduct Risk taxonomy which facilitate a clear and consistent way of managing and monitoring the risk, and the risk is managed in conjunction with the Compliance and Operational Risk Framework (I.AM).
	Technology Risk The risk of loss and/or non-compliance with laws from inadequate or failed internal processes, people or systems that deliver technology assets and services to customers and staff. This risk includes technology assets and services delivered or managed by third parties, and external events. The risk specifically includes information security and cyber security and how information held by the Banking Group needs to be protected from inappropriate modification, loss, disclosure and unavailability.	Our approach to managing Technology Risk is to manage our operational risks caused by the use of technology, including risks associated with cyber security and third party providers, in a manner that seeks to ensure customer information is secure and service disruption is within acceptable levels.

B8. RISK MANAGEMENT POLICIES (continued)

Risk type	Description	Managing the risk
Financial Crime Risk	Financial Crime Risk covers the following risks at the Banking Group: • **Money Laundering (ML) Risk** – the risk that we may reasonably face from our products and/or services being misused to facilitate the processing of the proceeds of crime to conceal their illegal origins and make them appear legitimate. • **Terrorism Financing (TF) Risk** – the risk that we may reasonably face from our products and/or services being misused to facilitate the provision or collection of funds with the intention or knowledge that they may be used to carry out acts associated in support of terrorists or terrorist organisations. • **Sanctions Risk** – the risk of failing to comply with laws and regulations relating to sanctions imposed by governments and multinational bodies as a result of our products and services being misused to facilitate prohibited sanctions activities. • **Fraud Risk** – the risk that we may reasonably face from our products and/or services being misused to facilitate intentional acts by one or more individuals, involving the use of deception to obtain an unjust or illegal advantage arising from internal or external sources.	Financial Crime Risk at the Banking Group is managed using a risk-based approach in conjunction with the Compliance and Operational Risk Framework (I.AM) and a three lines of defence model. In addition to a risk-based approach to risk management, for Sanctions there is a rules-based lens to ensure compliance with Sanctions legislation. For the Business to identify and manage Financial Crime Risk, it must identify its regulatory obligations and impacted business activities and maintain and monitor key controls.

Refer to Note 15 financial risk management for the disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures*.

Other material risks

Other material risks do not require the same degree of active or transactional management as the Key material risks and are managed and monitored as part of the Banking Group's business, strategic and capital management process. The maximum level of risk is set as part of the Banking Group's ICAAP. Refer to Note 22 capital management for more information about the Banking Group's ICAAP, and the section 'Capital for other material risks' in Note B4 for the capital held for these risks.

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

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Capital adequacy

Refer to Note 22 capital management for the disclosures required under NZ IAS 1 *Presentation of financial statements*.

Reviews of the Banking Group's risk management systems

Refer to Note 15 financial risk management for details of the Internal Audit Function's reviews of the Banking Group's RMF. These reviews are not conducted by a party external to the Banking Group or the Ultimate Parent Bank.

Internal Audit Function of the Banking Group

The Banking Group has an Internal Audit Function, refer to Note 15 financial risk management for details.

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

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

The Audit Committee is also responsible for:

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

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

Measurement of impaired assets

Refer to Note 12 allowance for expected credit losses and Note 15 financial risk management for details of the Banking Group's approach to measurement of impaired assets. Further to this, impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairment updated quarterly.

Credit risk mitigation

Refer to Note 18 offsetting for the policies and processes for, and extent of, on-balance sheet netting. The same policies and processes apply to off-balance sheet credit related commitments. No off-balance sheet credit related commitments or guarantees meet the criteria for netting.

As an AIRB bank, the Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

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

B8. RISK MANAGEMENT POLICIES (continued)

Additional information about credit risk

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

The Banking Group adheres to the standards of risk grading and risk quantification as set out for IRB banks in the RBNZ Banking Prudential Requirements (BPRs). 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.
- 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 BPR133: *IRB Credit Risk RWAs*. 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 as set out in BPR133: *IRB Credit Risk RWAs*.

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

The exceptions to IRB treatment are Sovereign, Bank, Equity, Other, Qualifying Central Counterparty (QCCP) and two minor corporate exposure types 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 BPR131: *Standardised Credit Risk RWAs*.

Internal ratings based approach

IRB Asset Class	Borrower Type	Rating Approach
Corporate	Corporation, partnerships or proprietorships that do not fit any other asset classification	IRB - Advanced
	Corporate Small to Medium Enterprises (SME) with turnover of less than NZ$50 million	IRB - Advanced
Retail Mortgages	Individuals' borrowings against residential property	IRB - Advanced
Other Retail	Other lending to individuals (including credit cards)	IRB - Advanced
	SME business borrowers	IRB - Advanced
Corporate sub-class - Specialised lending	Project finance	IRB - Slotting
	Income producing real estate	IRB - Slotting

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Sovereign	Crown	Required by BPRs	Standardised
	RBNZ	Required by BPRs	Standardised
	Any other sovereign and its central bank	Required by BPRs	Standardised
Bank		Required by BPRs	Standardised
Equity		Required by BPRs	Standardised
Other	All other assets not falling within any of the above classes	Required by BPRs	Standardised
Corporate	QCCP	Required by BPRs	Standardised
	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB

Controls surrounding credit risk rating systems

The term "Rating Systems" covers all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

All material aspects of the Rating Systems and risk estimate processes are governed by the BRC. Risk grades are an integral part of reporting to senior management and executives. Management and staff of credit risk functions, in conjunction with the relevant Retail and Wholesale Risk committees, regularly assess the performance of the rating systems, identify any areas for improvement and monitor progress on previously identified development work needed.

The Banking Group's Rating Systems are governed by a comprehensive framework of controls that operate at the business unit and support centres, and through central audit and validation processes. All policies, model designs, model reviews, methodologies, validations, responsibilities, systems and processes supporting the ratings systems are fully documented.

The Banking Group's Retail and Wholesale ratings functions work closely with the Ultimate Parent Bank's risk ratings functions, are independent of operational lending activities and are responsible for the ratings strategies and ongoing management of credit risk models within New Zealand. The annual review of models used across the Banking Group is a function undertaken by the ANZ Decision Model Validation Unit, which is also independent of credit risk operational functions and is responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The target approach to modelling for the Banking Group is to deploy the model most suitable for the environment. At present this involves an approach to modelling that combines models developed in New Zealand and models developed by the Ultimate Parent Bank, tested and validated for use in New Zealand, as appropriate.

DIRECTORS' STATEMENT

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

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

Over the year ended 30 September 2022, after due enquiry, each Director believes that:

- ANZ Bank New Zealand Limited has complied in all material respects with each condition of registration that applied during that period except as noted on page 76[1];
- Credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

1 In accordance with the Order, ANZ Bank New Zealand Limited has complied in all material respects with each of its conditions of registration that applied during the period if RBNZ has not published any information about a breach on its website, and has not notified ANZ Bank New Zealand Limited of any material breach.

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 11 November 2022.

Shayne Elliott

Gerard Florian

Alison Gerry

Rt Hon Sir John Key, GNZM AC

Scott St John

Mark Verbiest

Antonia Watson

Joan Withers

KPMG

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE AUDIT OF THE BANKING GROUP'S DISCLOSURE STATEMENT

OPINION

We have audited the accompanying consolidated financial statements and registered bank disclosures of ANZ Bank New Zealand Limited and its related entities (the Banking Group) in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated balance sheet as at 30 September 2022;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

In our opinion, the accompanying consolidated financial statements on pages 4 to 67:

- give a true and fair view of the Banking Group's financial position as at 30 September 2022 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

In our opinion, the registered bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order are included in section B2, B3, B5, B6, B7 and B8 of the Disclosure Statement:

- have been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Banking (Prudential Supervision) Act 1989 and any conditions of registration;
- are in accordance with the books and records of the Banking Group in all material respects; and
- fairly states the matters to which it relates in accordance with those Schedules.

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

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

BASIS FOR OPINION

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

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

Our responsibilities under ISA's (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 section of our report.

Our firm has also provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

EMPHASIS OF MATTER – NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the Disclosure Statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to Capital adequacy. Our opinion on the consolidated financial statements and registered bank disclosures in section B2, B3, B4, B5, B6, B7 and B8 is not modified in respect of these matters.

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.

INDEPENDENT AUDITOR'S REPORT

ALLOWANCE FOR EXPECTED CREDIT LOSSES ($751 MILLION)

Refer to the critical accounting estimates and judgement disclosures in relation to the allowance for expected credit losses in Note 12 to the Consolidated Financial Statements.

The key audit matter

Allowance for expected credit losses is a key audit matter due to the significance of the loans and advances balance to the consolidated financial statements and the inherent complexity of the Banking Group's Expected Credit Loss (ECL) models used to measure ECL allowances. These models are reliant on data and a number of estimates including impacts of multiple economic scenarios, and other assumptions such as defining a Significant Increase in Credit Risk (SICR).

NZ IFRS 9 requires the Banking Group to measure ECL on a forward-looking basis reflecting a range of future economic conditions. Post-model adjustments to the ECL results are also made by the Banking Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging both the economic scenarios used and the judgemental overlays that the Banking Group applies to the ECL results.

Additional subjectivity and judgement has been introduced into the Banking Group's measurement of ECL due to the heightened uncertainty associated with the impact of the economic outlook on the Banking Group's customers, increasing our audit effort thereon.

The Banking Group's criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Banking Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

Additionally, the determination of an allowance for individually assessed impairment on Business and Institutional (wholesale) loans requires significant judgement in estimating the expected future cash repayments and proceeds from the value of the collateral held in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures included assessing the Banking Group's significant accounting policies against the requirements of the accounting standard. KPMG Financial Risk Management and Economic specialists were used in ECL audit procedures as a core part of our audit team.

We tested key controls in relation to:

- The Banking Group's ECL model governance and validation processes which involved assessment of model performance;
- The Banking Group's assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by the Banking Group's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, and controls over the monitoring of counterparty credit quality; and
- The Banking Group's oversight of the portfolios, with a focus on controls over delinquency monitoring.

We also tested relevant General Information Technology Controls over the key IT applications used by the Banking Group in measuring ECL allowances, as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Re-performing credit assessments of a sample of wholesale loans, controlled by the Banking Group's specialist workout and recovery team, who assessed these as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk. For each loan sampled, we challenged the Banking Group's CCR and Security Indicator, assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we reviewed the information on the Banking Group's loan file, understood the facts and circumstances of the case with the relationship manager, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment, and comparing data and assumptions used by the Banking Group in recoverability assessments to externally sourced evidence, such external property sale information;
- Obtaining an understanding of the Banking Group's processes to determine ECL allowances, evaluating the Banking Group's ECL model methodologies against established market practices and criteria in the accounting standards;
- Working with KPMG Financial Risk Management specialists, we assessed the accuracy of the Banking Group's ECL model estimates by re-performing, for a sample of loans, the ECL allowance using our independently derived calculation tools and comparing this to the amount recorded by the Banking Group;
- Working with our KPMG Economic specialists, we challenged the Banking Group's forward-looking macroeconomic assumptions and scenarios incorporated in the Banking Group's ECL models. We compared the Banking Group's forecast GDP and unemployment rates, to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the Banking Group's SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements in the CCR from loan origination CCR and comparing our expectation to actual staging applied on an individual account level in the Banking Group's ECL model; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of the Banking Group's post-model adjustments to the ECL allowance balance. This included:

- Assessing post-model adjustments against the Banking Group's ECL model and data deficiencies identified by the Banking Group's ECL model validation processes, particularly in light of the significant volatility in economic scenarios;
- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the impacts on the modelled ECL and the requirement for out of model adjustments. We also assessed assumptions used to determine whether a SICR event has occurred; and

- Assessing the completeness of post model adjustments by checking the consistency of risks we identified in the portfolios against the Banking Group's assessment.

We assessed the appropriateness of the Banking Group's disclosures in the consolidated financial statements using our understanding obtained from our testing and against the requirements of NZ IFRS.

VALUATION OF FINANCIAL INSTRUMENTS

Fair value of Level 2 financial instruments in asset positions $17,496 million

Fair value of Level 2 financial instruments in liability positions $16,720 million

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 16 to the Consolidated Financial Statements.

The key audit matter

The fair value of the Banking Group's financial instruments is determined by the Banking Group through the application of valuation techniques which often involve the exercise of judgement and the use of assumption and estimates.

The valuation of Level 2 financial instruments held at fair value is a key audit matter due to the complexity associated with the valuation methodology and models of certain more complex Level 2 financial instruments leading to an increase in subjectivity and estimation uncertainty. Level 2 financial instruments represent 51% of the Banking Group's financial assets carried at fair value and 98% of the Banking Group's financial liabilities carried at fair value.

How the matter was addressed in our audit

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

Performing an assessment of the population of financial instruments held at fair value to identify portfolios that have a higher risk of misstatement arising from significant judgment over valuation either due to unobservable inputs or complex models.

We tested the design and operating effectiveness of key controls relating specifically to these financial instruments, including:

- Independent Price Verification (IPV), including completeness of portfolios and valuation inputs subject to IPV;
- Model validation at inception and periodically, including assessment of model limitation and assumptions;
- Collateral management process, including review of margin reconciliations with clearing houses; and
- Reviews and approval of fair value adjustments (FVAs), including exit price and portfolio level adjustments.

With the assistance of KPMG valuation specialists, we independently revalued a selection of financial instruments and FVAs on level 2 instruments. This involved sourcing independent inputs from market data providers or external sources and using our own valuation models. We challenged the Banking Group where our revaluations significantly differed from the Banking Group's valuations.

We assessed the Banking Group's consolidated financial statement disclosures, including key judgements and assumptions using our understanding obtained from our testing and against NZ IFRS.

IT SYSTEMS AND CONTROLS

The key audit matter

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. The controls over access, changes to and operations of IT systems are critical to the recording of financial information and the preparation of financial statements which provide a true and fair view of the Banking Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Banking Group's IT controls.

How the matter was addressed in our audit

We tested the control environment for key IT applications used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT environment, including the approach to the Banking Group policy design, review and awareness, and IT risk and cyber security management practices;
- Design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each IT application and the supporting infrastructure;
- Design and operating effectiveness testing of controls in place over change management, including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT applications. We also assessed the appropriateness of users with access to make changes to IT applications across the Banking Group and whether access was commensurate with their job responsibilities;
- Design and operating effectiveness testing of controls used by the Banking Group's technology teams to schedule system jobs and monitor system integrity;
- Design and operating effectiveness testing of controls related to significant IT application programs per the ANZ Delivery Framework; and
- Design and operating effectiveness testing of automated business process controls including those that enforce segregation of duties between conflicting roles within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls (both between systems, and intra-system) and data integrity of critical system reporting used by us in our audit to select samples and analysis data used by management to generate financial reporting.

INDEPENDENT AUDITOR'S REPORT

CARRYING VALUE OF GOODWILL ($3,006 MILLION)

Refer to the critical accounting estimates, judgements and disclosures in Note 19 to the Consolidated Financial Statements.

The key audit matter

The carrying value of goodwill is a key audit matter, where there are a number of judgements required in the determination of the recoverable amount of goodwill, and where the carrying value of goodwill is financially significant at the reporting date.

The Banking Group uses a value-in-use (VIU) approach to estimate the recoverable amount of each Cash Generating Unit (CGU) to which goodwill is allocated. The reasonableness of the recoverable amounts was assessed using an implied market-multiples approach.

The uncertainties associated with the economic outlook increases the potential for impairment and our audit effort in this area remains elevated. There is increased judgement in forecasting cash flows and assumptions used in the discounted cash flow models and market-multiples used in the reasonableness assessment.

We focused on the significant forward-looking assumptions the Banking Group applied as part of its annual impairment test as at 28 February 2022, including:

- Revenue growth rates, and terminal growth rates in the VIU model. Available headroom for some CGUs is sensitive to small changes in these assumptions, reducing available headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application to the Banking Group's strategy; and
- Discount rates in the VIU model and the control premium in the market-multiples reasonableness assessment. These are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time.

How the matter was addressed in our audit

We involved valuation specialists to supplement our senior team members in assessing this key audit matter.

Working with our valuation specialists, our procedures included:

- In accordance with accounting standards, assessing the reasonableness of the amounts allocated to the CGUs to which the Banking Group allocated goodwill;
- Considering the appropriateness of the valuation method applied by the Banking Group to perform their annual test for impairment against the requirements of the accounting standards;
- Assessing the integrity of the VIU model used by the Banking Group, including the accuracy of the underlying calculation formulae;
- Assessing the accuracy of previous Banking Group forecasts to inform our evaluation of forecasts incorporated in the VIU model;
- For each CGU, assessing the Banking Group's key assumptions used in the VIU model, including discount rates, revenue growth rates, and terminal growth rates by comparing to external observable metrics, historical experience, our knowledge of the markets and current market practice;
- Stress testing key VIU assumptions to consider reasonably possible alternatives;
- Comparing the forecast cash flows contained in the model to the revised Operational forecast, reflecting the higher interest rate environment, the increased regulatory minimum capital requirements and the economic outlook;
- Assessing key assumptions used in the market-multiples reasonableness assessment, which we assessed as being equivalent to a fair value less costs of disposal approach. These assumptions included future maintainable earnings, the control premium comparing the implied multiples from comparable market transactions to the implied multiples used in the VIU model;
- Determining whether there is sufficient appropriate evidence to support the Banking Group's conclusion that there is no impairment in goodwill associated with any CGU;
- Assessing the reasonableness of the Banking Group's review for potential internal and external indicators of impairment. This review considered the period from the annual impairment test as at 28 February 2022 up to financial year end; and
- Assessing the disclosures in the financial statements against the requirements of the accounting standards.

OTHER INFORMATION

The Directors, on behalf of the Banking Group, are responsible for the general disclosures required to be included in the Banking Group's Disclosure Statement in accordance with Schedule 2 of the Order (section B1).

Our opinion on the consolidated financial statements does not cover section B1 (referred to as 'other information') and we do not express any form of assurance conclusion thereon.

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B1, B2, B3, B5, B6, B7 AND B8

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

Our objective is:

- to obtain reasonable assurance about whether the Disclosure Statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and registered bank disclosures in section B2, B3, B5, B6, B7 and B8, prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

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

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (the 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 CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (SECTION B4)

Based on our review, nothing has come to our attention that causes us to believe that the registered bank disclosures relating to capital adequacy and regulatory liquidity ratios, disclosed in section B4 of the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

We have reviewed the registered bank disclosures, as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2022, which are required to be disclosed in accordance with Schedule 11 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 the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

EMPHASIS OF MATTER – NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the Disclosure Statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to Capital adequacy. Our review opinion on the registered bank disclosures in section B4 is not modified in respect of these matters.

RESPONSIBILITIES OF DIRECTORS FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors, on behalf of the Banking Group, are responsible for the preparation of the registered bank disclosures in section B4, that is required to be prepared and disclosed in accordance with Schedule 11 of the Order.

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

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the registered bank disclosures in section B4 is, in all material respects, disclosed in accordance with Schedule 11 of the Order.

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

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

INDEPENDENT AUDITOR'S REPORT

USE OF THIS INDEPENDENT AUDITOR'S REPORT

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

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

For and on behalf of

KPMG

KPMG
Auckland

11 November 2022

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