ANZ BANK NEW ZEALAND LIMITED
REGISTERED BANK DISCLOSURE STATEMENT

FOR THE SIX MONTHS ENDED 31 MARCH 2021
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CONTENTS

GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

Banking Group, 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.

INTERIM FINANCIAL STATEMENTS

Condensed consolidated interim financial statements

Notes to the condensed consolidated interim financial statements

INTERIM FINANCIAL STATEMENTS

INCOME STATEMENT

For the six months ended 31 March	Note	2021 NZ$m	2020 NZ$m
Interest income		2,334	2,998
Interest expense		(661)	(1,332)
Net interest income		1,673	1,666
Other operating income	2	338	483
Operating income		2,011	2,149
Operating expenses	3	(772)	(836)
Profit before credit impairment and income tax		1,239	1,313
Credit impairment release / (charge)	6	70	(233)
Profit before income tax		1,309	1,080
Income tax expense		(362)	(296)
Profit for the period		947	784

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March	2021 NZ$m	2020 NZ$m
Profit for the period	947	784
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	43	(17)
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(3)	(65)
Realised losses transferred to the income statement	4	14
Income tax attributable to the above items	(11)	19
Other comprehensive income after tax	33	(49)
Total comprehensive income for the period	980	735

The notes appearing on pages 8 to 22 form an integral part of these interim financial statements

BALANCE SHEET

As at	Note	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Assets			
Cash and cash equivalents		5,579	8,248
Settlement balances receivable		447	378
Collateral paid		1,380	1,394
Trading securities		9,700	12,797
Derivative financial instruments		12,259	9,702
Investment securities		12,046	9,893
Net loans and advances	5	137,488	132,698
Deferred tax assets		368	327
Goodwill and other intangible assets	7	3,088	3,092
Premises and equipment		549	590
Other assets		639	625
Total assets		183,543	179,744
Liabilities			
Settlement balances payable		2,874	2,950
Collateral received		1,202	1,275
Deposits and other borrowings	8	128,860	125,061
Derivative financial instruments		11,111	8,252
Current tax liabilities		83	251
Payables and other liabilities		1,331	1,115
Employee entitlements		137	143
Other provisions	9	348	389
Debt issuances	10	20,752	24,439
Total liabilities		166,698	163,875
Net assets		16,845	15,869
Equity			
Share capital		11,888	11,888
Reserves		119	118
Retained earnings		4,838	3,863
Total equity		16,845	15,869

The notes appearing on pages 8 to 22 form an integral part of these interim financial statements

INTERIM FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the six months ended 31 March	2021 NZ$m	2020 NZ$m
Profit after income tax	947	784
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation and amortisation	63	69
Loss on sale and impairment of premises and equipment	1	-
Net derivatives/foreign exchange adjustment	(776)	1,260
Other non-cash movements	115	117
Net (increase)/decrease in operating assets:		
Collateral paid	14	(203)
Trading securities	3,097	(2,737)
Net loans and advances	(4,790)	(2,830)
Other assets	(124)	(399)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	3,799	7,613
Settlement balances payable	(76)	658
Collateral received	(73)	299
Other liabilities	22	(278)
Total adjustments	1,272	3,569
Net cash flows from operating activities[1]	2,219	4,353
Cash flows from investing activities		
Investment securities:		
Purchases	(4,046)	(1,050)
Proceeds from sale or maturity	1,509	768
Other assets	(17)	(21)
Net cash flows from investing activities	(2,554)	(303)
Cash flows from financing activities		
Debt issuances[2]		
Issue proceeds	-	2,327
Redemptions	(2,307)	(966)
Repayment of lease liabilities	(23)	(24)
Dividends paid	(4)	(4)
Net cash flows from financing activities	(2,334)	1,333
Net change in cash and cash equivalents	(2,669)	5,383
Cash and cash equivalents at beginning of period	8,248	2,363
Cash and cash equivalents at end of period	5,579	7,746

1 Net cash provided by operating activities includes income taxes paid of NZ$582 million (2020: NZ$485 million).
2 Movement in debt issuances (Note 10 debt issuances) also includes an NZ$1,089 million decrease (2020: NZ$901 million increase) from the effect of foreign exchange rates, a NZ$336 million decrease (2020: NZ$320 million increase) from changes in fair value hedging instruments and a NZ$45 million increase (2020: NZ$94 million increase) of other changes.

The notes appearing on pages 8 to 22 form an integral part of these interim financial statements

STATEMENT OF CHANGES IN EQUITY

	Share capital NZ$m	Investment securities revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2019	11,888	(6)	27	2,521	14,430
Impact on transition to NZ IFRS 16 *Leases*	-	-	-	(17)	(17)
As at 1 October 2019 (adjusted)	11,888	(6)	27	2,504	14,413
Profit or loss	-	-	-	784	784
Unrealised losses recognised directly in equity	-	(38)	(27)	-	(65)
Realised losses transferred to the income statement	-	-	14	-	14
Actuarial loss on defined benefit schemes	-	-	-	(17)	(17)
Income tax credit on items recognised directly in equity	-	11	4	4	19
Total comprehensive income for the period	-	(27)	(9)	771	735
Transactions with Immediate Parent Company in its capacity as owner:					
Preference dividends paid	-	-	-	(4)	(4)
Transactions with Immediate Parent Company in its capacity as owner	-	-	-	(4)	(4)
As at 31 March 2020	11,888	(33)	18	3,271	15,144
As at 1 October 2020	11,888	8	110	3,863	15,869
Profit or loss	-	-	-	947	947
Unrealised gains / (losses) recognised directly in equity	-	49	(52)	-	(3)
Realised losses / (gains) transferred to the income statement	-	(2)	6	-	4
Actuarial gain on defined benefit schemes	-	-	-	43	43
Income tax credit / (expense) on items recognised directly in equity	-	(13)	13	(11)	(11)
Total comprehensive income for the period	-	34	(33)	979	980
Transactions with Immediate Parent Company in its capacity as owner:					
Preference dividends paid	-	-	-	(4)	(4)
Transactions with Immediate Parent Company in its capacity as owner	-	-	-	(4)	(4)
As at 31 March 2021	11,888	42	77	4,838	16,845

The notes appearing on pages 8 to 22 form an integral part of these interim financial statements

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. ABOUT OUR INTERIM FINANCIAL STATEMENTS

BASIS OF PREPARATION

These are the condensed consolidated interim financial statements (financial statements) for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') and should be read in conjunction with the Banking Group's financial statements for the year ended 30 September 2020.

On 7 May 2021, the Directors resolved to authorise the issue of these financial statements.

These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice (NZ GAAP), as defined in the Financial Reporting Act 2013;
- NZ IAS 34 *Interim Financial Reporting* and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities; and
- IAS 34 *Interim Financial Reporting*.

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

We present the financial statements in New Zealand dollars and have rounded values to the nearest million dollars (NZ$m), unless otherwise stated.

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

BASIS OF MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

The preparation of these financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting estimates and judgements, which include complex or subjective decisions or assessments, are provided in the previous full year financial statements. Such estimates and judgements are reviewed on an ongoing basis.

A brief explanation of the key estimates, assumptions and judgements that have changed during the six months ended 31 March 2021 follows:

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted our customers, operations and the Banking Group's performance. The outbreak necessitated governments to respond at unprecedented levels to protect the health of the population, local economies and livelihoods. It has affected different regions at different times and at varying degrees and there remains a risk of subsequent waves of infection. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the impact, extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes disruption to capital markets, and the impacts on credit quality, liquidity, unemployment, consumer spending, as well as specific sector impacts and other restructuring activities; and
- the efficacy, extent and pace of roll-out of vaccines, as well as the effectiveness of government and central bank measures that have been and will be put in place to support businesses and consumers through this disruption.

The Banking Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2021 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Banking Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those 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, carrying values of goodwill, fair value measurement, and recoverable amounts of non-financial assets.

The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note in these financial statements and/or in the relevant note in the previous full year financial statements. Readers should consider these disclosures in light of the inherent uncertainty described above.

2. OTHER OPERATING INCOME

For the six months ended 31 March	2021 NZ$m	2020 NZ$m
(i) Fee and commission income		
Lending fees	16	17
Non-lending fees	341	374
Commissions	18	21
Funds management income	131	133
Fee and commission income	506	545
Fee and commission expense	(230)	(260)
Net fee and commission income	276	285
(ii) Other income		
Net trading gains	66	68
Fair value gain / (loss) on hedging activities and financial liabilities designated at fair value	(26)	119
Net foreign exchange earnings and other financial instruments income	40	187
Other	22	11
Other income	62	198
Other operating income	338	483

3. OPERATING EXPENSES

For the six months ended 31 March	2021 NZ$m	2020 NZ$m
Personnel		
Salaries and related costs	421	454
Superannuation costs	14	15
Other	9	24
Personnel	444	493
Premises		
Rent	9	12
Depreciation	40	45
Other	20	20
Premises	69	77
Technology		
Depreciation and amortisation	23	24
Subscription licences and outsourced services	62	60
Other	18	22
Technology (excluding personnel)	103	106
Other		
Advertising and public relations	17	24
Professional fees	31	31
Freight, stationery, postage and communication	21	21
Charges from Ultimate Parent Bank	53	41
Other	34	43
Other	156	160
Operating expenses	772	836

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4. SEGMENT REPORTING

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

There were no material changes to the Banking Group's reportable segments during the six months ended 31 March 2021.

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

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

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

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

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

	Retail		Commercial		Institutional		Other		Total	
For the six months ended 31 March	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
Net interest income	983	921	503	549	168	177	19	19	1,673	1,666
Net fee and commission income										
- Lending fees	7	8	-	-	9	9	-	-	16	17
- Non-lending fees	308	343	5	5	28	26	-	-	341	374
- Commissions	17	21	-	-	1	-	-	-	18	21
- Funds management income	131	133	-	-	-	-	-	-	131	133
- Fee and commission expense	(230)	(260)	-	-	-	-	-	-	(230)	(260)
Net fee and commission income	233	245	5	5	38	35	-	-	276	285
Other income	15	8	-	1	75	46	(28)	143	62	198
Other operating income	248	253	5	6	113	81	(28)	143	338	483
Operating income	1,231	1,174	508	555	281	258	(9)	162	2,011	2,149
Operating expenses	(547)	(574)	(118)	(147)	(94)	(96)	(13)	(19)	(772)	(836)
Profit before credit impairment and income tax	684	600	390	408	187	162	(22)	143	1,239	1,313
Credit impairment release / (charge)	32	(83)	31	(106)	7	(44)	-	-	70	(233)
Profit / (loss) before income tax	716	517	421	302	194	118	(22)	143	1,309	1,080
Income tax expense	(197)	(145)	(118)	(85)	(54)	(33)	7	(33)	(362)	(296)
Profit / (loss) after income tax	519	372	303	217	140	85	(15)	110	947	784

	Retail		Commercial		Institutional		Other		Total	
	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20
As at	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Financial position										
Goodwill	1,011	1,011	926	926	1,069	1,069	-	-	3,006	3,006
Net loans and advances	92,112	86,362	38,832	39,333	6,533	6,993	11	10	137,488	132,698
Customer deposits	81,358	79,867	20,172	18,437	21,256	22,559	-	-	122,786	120,863

Other segment

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

For the six months ended 31 March	2021 NZ$m	2020 NZ$m
Central functions	1	3
Group Centre	8	11
Economic hedges	(24)	96
Total	(15)	110

5. NET LOANS AND ADVANCES

	Note	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Overdrafts		660	659
Credit cards		1,287	1,300
Term loans - housing		95,081	89,258
Term loans - non-housing		40,732	41,882
Subtotal		137,760	133,099
Unearned income		(23)	(26)
Capitalised brokerage and other origination costs		368	319
Gross loans and advances		138,105	133,392
Allowance for expected credit losses	6	(617)	(694)
Net loans and advances		137,488	132,698

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$306 million as at 31 March 2021 (30 September 2020: NZ$287 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

6. ALLOWANCE FOR EXPECTED CREDIT LOSSES

This note should be read in conjunction with the estimates, assumptions and judgements relating to COVID-19 included in Note 1.

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

Net loans and advances - at amortised cost

Allowance for Expected Credit Losses (ECL) is included in net loans and advances.

	Stage 1	Stage 2	Stage 3		Total
			Collectively assessed	Individually assessed	
	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
As at 1 October 2020	162	347	79	106	694
Transfer between stages	21	(20)	(2)	1	-
New and increased provisions (net of collective provision releases)	(33)	1	(15)	38	(9)
Write-backs	-	-	-	(36)	(36)
Bad debts written-off (excluding recoveries)	-	-	-	(28)	(28)
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2021	150	328	62	77	617

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	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(11)	(1)	-	(3)	(15)
As at 31 March 2021	71	51	3	19	144

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

For the six months ended 31 March	2021 NZ$m	2020 NZ$m
New and increased provisions		
- Collectively assessed	(60)	189
- Individually assessed	36	73
Write-backs	(36)	(15)
Recoveries of amounts previously written-off	(10)	(14)
Total credit impairment charge / (release)	(70)	233

LOAN DEFERRAL AND RELIEF PACKAGES

From March 2020, the Banking Group offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. The loan deferral and relief packages are considered to be a loan modification under NZ IFRS 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification).

These relief packages were phased out during the six months ended 31 March 2021. In the case of loan deferral packages, 86% of all customers who took advantage of a deferral package have reverted back to loan repayments, with the remainder having been either restructured or, for less than 2% of customers, transferred to hardship. For those customers who took up loan deferral packages, it is considered that the packages, as well as government support measures, may have obscured repayment delinquencies that might otherwise have occurred over the loan deferral period and those that may still occur in the future. Thus the Banking Group has provided a component of ECL for expected delinquencies and increases in Significant Increase in Credit Risk (SICR) for this population of loans.

Facilities which transitioned to interest-only or took up term extensions offered as a result of COVID-19, are now subsumed within the normal loan population and are managed accordingly.

KEY JUDGEMENTS AND ESTIMATES

In estimating individually assessed ECL for Stage 3 exposures, 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 the ongoing and potential impact of COVID-19.

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

- the selection of an estimation technique or modelling methodology, noting that the modelling of the Banking Group's ECL estimates are complex; 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 in the context of the impact of COVID-19, 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 six months ended 31 March 2021
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 relief packages offered to customers in response to COVID-19 in 2020 are no longer being offered, and the majority of customers who took up the relief have reverted back to their normal loan repayments. The relief packages, as well as government support measures, may have obscured repayment delinquencies that might otherwise have occurred and those that may still occur in the future. Thus the Banking Group has provided a component of ECL for expected delinquencies and increases in SICR.
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 PD, EAD and LGD models are subject to the Banking Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. During the six months ended 31 March 2021 an adjustment was made to the modelled outcome to account for continuing model uncertainties as a result of COVID-19.
	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 six months ended 31 March 2021.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

KEY JUDGEMENTS AND ESTIMATES

Judgement / assumption	Description	Considerations for the six months ended 31 March 2021
Base case economic forecast	The Banking Group derives a forward looking "base case" economic scenario which reflects our view of future macro-economic conditions.	There have been no changes to the types of forward looking variables (key economic drivers) used as model inputs in the current period. As at 31 March 2021, the base case assumptions have been updated to reflect the current phase of COVID-19, including containment in key geographies, government stimulus measures and roll-out of vaccines. In determining the expected path and timing out of the current economic downturn, assessments of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as payment deferrals) were considered. The expected outcomes of key economic drivers for the base case scenario as at 31 March 2021 are described below under the heading "Base case economic forecast assumptions".
Probability weighting of each scenario (base case, upside, downside and severe downside scenarios)[1,2]	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case scenario at each measurement date.	The key consideration for probability weightings in the current period is the extent and timing of recovery from the economic downturn caused by COVID-19. The Banking Group considers these weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them. In addition to the base case forecast which reflects a significant improvement as we emerge from an economic environment heavily influenced by COVID-19, greater weighting continues to be applied to the downside scenario given the Banking Group's assessment of downside risks. 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.
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. The uncertainty associated with the COVID-19 pandemic, including the roll-out of vaccines, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models which are based on historical underlying data. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with continuing COVID-19 impacts. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to retail, commercial and agri banking.

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.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

KEY JUDGEMENTS AND ESTIMATES

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic increases the risk to the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- the extent and duration of measures, including the roll-out of vaccines, to contain the spread of COVID-19;
- the extent and duration of the economic downturn, along with the time required for economies to recover; and
- the effectiveness of government stimulus measures, in particular their impact on the magnitude of the economic downturn and the extent and duration of the recovery.

The economic drivers of the base case economic forecasts at 31 March 2021 are set out below. These reflect our view of future macro-economic conditions at 31 March 2021. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

	Actual calendar year	Forecast calendar year	
New Zealand	2020	2021	2022
Gross domestic product (GDP)	-3.0%	3.6%	3.7%
Unemployment	4.6%	5.4%	4.6%
Residential property prices	15.6%	17.4%	4.1%
Consumer price index (CPI)	1.7	1.9	1.6

The base case economic forecasts as at 31 March 2021 indicate a significant improvement in current and expected economic conditions from the forecasts as at 30 September 2020 reflecting the ongoing progress and actions in responding to the COVID-19 pandemic.

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario. The key consideration for probability weightings in the current period is the effectiveness of actions taken in response to COVID-19 and the ability of vaccines to limit the impact of the virus.

The base case scenario represents a significant improvement in the forecasts since September 2020. Given the uncertainties associated with a potential recovery in the economy, greater weighting continues to be applied to the downside and severe downside scenarios given the Banking Group's assessment of downside risks.

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 the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them. The average weightings applied are set out below:

	31 Mar 21	30 Sep 20
Base	50%	50%
Upside	8%	8%
Downside	32%	32%
Severe downside	10%	10%

ECL - sensitivity analysis

Given current economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future periods, ECL 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 31 March 2021:

	Total NZ$m	Impact NZ$m
If 1% of Stage 1 facilities were included in Stage 2	669	4
If 1% of Stage 2 facilities were included in Stage 1	664	(1)
100% upside scenario	457	(208)
100% base scenario	544	(121)
100% downside scenario	802	137
100% severe downside scenario	998	333

NOTES TO THE INTERIM FINANCIAL STATEMENTS

7. GOODWILL AND OTHER INTANGIBLE ASSETS

	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Goodwill	3,006	3,006
Funds management rights (indefinite life)	76	76
Software	6	10
Goodwill and other intangible assets	3,088	3,092

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 Wealth New Zealand Limited) group on 30 November 2009.

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

	Goodwill		Management rights	
Cash generating unit	31 Mar 21 NZ$m	30 Sep 20 NZ$m	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Retail and business banking	893	893	-	-
Wealth	118	118	76	76
Retail segment	1,011	1,011	76	76
Commercial	926	926	-	-
Institutional	1,069	1,069	-	-
Total	3,006	3,006	76	76

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.

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 the RBNZ on the payment of ordinary dividends by all New Zealand incorporated registered banks, and the implementation of the 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 2021 impairment test
Forecast period and projections	To 30 September 2028 - an extended forecast period was used to cover the implementation period of the RBNZ's increased capital requirements over the period 1 July 2021 to 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 2021 to 2023, before returning to long run experience levels for 2024 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 2024 to 2028 is shown below.
Terminal growth rate	2.0% - based on 2023 forecast inflation from the RBNZ's February 2021 Monetary Policy Statement.
Discount rate	Post tax: 9.4% (February 2020: 9.3%). 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 2021 of 1.9%. 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	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20	31 Mar 21	30 Sep 20
Retail and business banking	6.1%	5.8%	0.13%	0.13%	17.5%	16.7%
Wealth	3.4%	2.7%	0.10%	0.01%	16.4%	16.0%
Commercial	4.2%	4.8%	0.21%	0.22%	17.8%	17.1%
Institutional	4.5%	0.6%	0.21%	0.12%	17.3%	17.0%

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 recoverable amounts of the Retail & business banking and Wealth CGUs to exceed their carrying amounts, but would do so for the Commercial and Institutional CGUs.

A summary of the amounts by which key assumptions for Commercial and Institutional must change in order for their recoverable amounts to equal their carrying amounts is shown below.

	Commercial		Institutional	
	Forecast Value	Change required	Forecast Value	Change required
Amount by which recoverable amount exceeds carrying amount (NZ$m)	513	n/a	386	n/a
Value of assumption and change (in basis points) required to reduce recoverable amount to nil:				
Average annual revenue growth over forecast period	4.2%	-87 bp	4.5%	-113 bp
Average annual credit impairment FY24-FY28	0.21%	+17 bp	0.21%	+73 bp
Discount rate	9.4%	+63 bp	9.4%	+80 bp
Terminal growth rate	2.0%	-106 bp	2.0%	-140 bp

KEY JUDGEMENTS AND ESTIMATES

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

Goodwill

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

- the level at which goodwill is allocated – consistent with prior periods the CGUs to which goodwill is allocated are the Banking Group's four 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 ongoing impact of COVID-19, and reflects expectations of future events that are believed to be reasonable under the circumstances. The rapidly evolving consequences of COVID-19 and government, business and consumer responses create heightened uncertainty in these estimates and any variations could have a positive or adverse impact on the determination of recoverable amounts.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

8. DEPOSITS AND OTHER BORROWINGS

	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Term deposits	43,264	50,069
On demand and short term deposits	59,240	53,910
Deposits not bearing interest	20,282	16,884
Total customer deposits	122,786	120,863
Certificates of deposit	1,407	1,782
Commercial paper	3,543	1,748
Securities sold under repurchase agreements	1,113	646
Deposits from Immediate Parent Company and NZ Branch	11	22
Deposits and other borrowings	128,860	125,061

9. OTHER PROVISIONS

	Note	31 Mar 21 NZ$m	30 Sep 20 NZ$m
ECL allowance on undrawn facilities	6	144	159
Customer remediation		121	141
Restructuring costs		31	36
Leasehold make good		23	23
Other[1]		29	30
Total other provisions		348	389

1 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.

10. 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.

	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Senior debt	14,066	17,476
Covered bonds	4,245	4,522
Total unsubordinated debt	18,311	21,998
Subordinated debt (additional tier 1 capital)	2,441	2,441
Total debt issued	20,752	24,439

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.

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 the Covered Bond Guarantor 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.

11. CREDIT RISK

This note should be read in conjunction with the estimates, assumptions and judgements relating to COVID-19 in Note 1 and ECL in Note 6.

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	
	31 Mar 21 NZ$m	30 Sep 20 NZ$m	31 Mar 21 NZ$m	30 Sep 20 NZ$m	31 Mar 21 NZ$m	30 Sep 20 NZ$m
On-balance sheet positions						
Net loans and advances	137,488	132,698	-	-	137,488	132,698
Other financial assets:						
Cash and cash equivalents	5,579	8,248	211	187	5,368	8,061
Settlement balances receivable	447	378	-	-	447	378
Collateral paid	1,380	1,394	-	-	1,380	1,394
Trading securities	9,700	12,797	-	-	9,700	12,797
Derivative financial instruments	12,259	9,702	-	-	12,259	9,702
Investment securities	12,046	9,893	-	-	12,046	9,893
Other financial assets[2]	551	547	-	-	551	547
Total other financial assets	41,962	42,959	211	187	41,751	42,772
Subtotal	179,450	175,657	211	187	179,239	175,470
Off-balance sheet commitments						
Undrawn and contingent facilities[3]	30,448	30,857	-	-	30,448	30,857
Total	209,898	206,514	211	187	209,687	206,327

1 Bank notes and coins and cash at bank within cash and cash equivalents.
2 Other financial assets mainly comprise accrued interest and acceptances.
3 Undrawn facilities and contingent facilities include guarantees, letters of credit and performance related contingencies, net of collectively assessed and individually assessed allowance for expected credit losses.

Credit quality

We use the Banking Group's internal customer credit rating (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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Net loans and advances

As at 31 March 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	106,586	2,087	-	-	108,673
Satisfactory	21,964	3,918	-	-	25,882
Weak	522	1,685	-	-	2,207
Defaulted	-	-	683	315	998
Subtotal	129,072	7,690	683	315	137,760
Allowance for ECL	(150)	(328)	(62)	(77)	(617)
Net loans and advances at amortised cost	128,922	7,362	621	238	137,143
Coverage ratio	0.12%	4.27%	9.08%	24.44%	0.45%
Unearned income					(23)
Capitalised brokerage and other origination costs					368
Net carrying amount					137,488
As at 30 September 2020					
Strong	98,259	5,508	-	-	103,767
Satisfactory	21,446	4,578	-	-	26,024
Weak	405	1,734	-	-	2,139
Defaulted	-	-	808	361	1,169
Subtotal	120,110	11,820	808	361	133,099
Allowance for ECL	(162)	(347)	(79)	(106)	(694)
Net loans and advances at amortised cost	119,948	11,473	729	255	132,405
Coverage ratio	0.13%	2.94%	9.78%	29.36%	0.52%
Unearned income					(26)
Capitalised brokerage and other origination costs					319
Net carrying amount					132,698

Off-balance sheet commitments - undrawn and contingent facilities

As at 31 March 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	25,165	194	-	-	25,359
Satisfactory	3,848	1,160	-	-	5,008
Weak	19	140	-	-	159
Defaulted	-	-	31	35	66
Gross undrawn and contingent facilities	29,032	1,494	31	35	30,592
Allowance for ECL included in other provisions (refer to Note 9)	(71)	(51)	(3)	(19)	(144)
Net undrawn and contingent facilities	28,961	1,443	28	16	30,448
Coverage ratio	0.24%	3.41%	9.68%	54.29%	0.47%
As at 30 September 2020					
Strong	25,525	302	-	-	25,827
Satisfactory	3,949	974	-	-	4,923
Weak	27	179	-	-	206
Defaulted	-	-	19	41	60
Gross undrawn and contingent facilities	29,501	1,455	19	41	31,016
Allowance for ECL included in other provisions (refer to Note 9)	(79)	(55)	(3)	(22)	(159)
Net undrawn and contingent facilities	29,422	1,400	16	19	30,857
Coverage ratio	0.27%	3.78%	15.79%	53.66%	0.51%

12. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities carried at fair value on the balance sheet

The Banking Group categorises financial assets and financial liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 *Fair Value Measurement* 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 table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	31 Mar 21 NZ$m	30 Sep 20 NZ$m	31 Mar 21 NZ$m	30 Sep 20 NZ$m	31 Mar 21 NZ$m	30 Sep 20 NZ$m	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Assets								
Trading securities	8,854	8,848	846	3,949	-	-	9,700	12,797
Derivative financial instruments	10	8	12,247	9,691	2	3	12,259	9,702
Investment securities	12,045	9,892	-	-	1	1	12,046	9,893
Total	20,909	18,748	13,093	13,640	3	4	34,005	32,392
Liabilities								
Deposits and other borrowings	-	-	3,543	1,748	-	-	3,543	1,748
Derivative financial instruments	19	4	11,092	8,248	-	-	11,111	8,252
Other financial liabilities	598	158	-	-	-	-	598	158
Total	617	162	14,635	9,996	-	-	15,252	10,158

Financial assets and financial liabilities not measured at fair value

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

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

	Carrying amount		Fair value	
	31 Mar 21 NZ$m	30 Sep 20 NZ$m	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Financial assets				
Net loans and advances[1]	137,488	132,698	137,903	133,305
Total	137,488	132,698	137,903	133,305
Financial liabilities				
Deposits and other borrowings[2]	125,317	123,313	125,439	123,486
Debt issuances[1]	20,752	24,439	21,165	24,748
Total	146,069	147,752	146,604	148,234

1 Fair value hedging is applied to certain financial instruments within these categories. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.
2 Excludes commercial paper (Note 8 deposits and other borrowings) designated at fair value through profit or loss.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

13. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments and contingencies	31 Mar 21 NZ$m	30 Sep 20 NZ$m
Contract amount of:		
Undrawn facilities	27,709	28,273
Guarantees and letters of credit	1,298	1,309
Performance related contingencies	1,585	1,434
Total	30,592	31,016

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

Other contingent liabilities

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 9 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

In recent years there has been an increase in the number of matters on which the Banking Group engages with its regulators. There have also been significant increases in the nature and scale of regulatory investigations and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions 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 financial transactions, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

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

On 5 July 2019, the RBNZ issued a notice under section 95 of the RBNZ Act requiring the Bank to obtain two external reviews: the first on the Bank's compliance with certain aspects of the RBNZ Banking Supervision Handbook document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) *(Capital Adequacy Review)*; and the second on the effectiveness of the Bank's directors' attestation and assurance framework *(Attestation Review)*.

The Attestation Review and the Capital Adequacy Review were completed in December 2019 and April 2020, respectively. The Bank is committed to implementing the recommendations and addressing the issues raised by these reviews.

Due to the impacts of the COVID-19 pandemic, the RBNZ extended the time period for addressing the Attestation Review recommendations, subject to the Bank obtaining external interim reviews of the remediation activities being undertaken in respect of the Attestation Review and the Capital Adequacy Review, assessed as at March 2021, with final reviews being assessed as at September 2021 for the Attestation review and December 2021 for the Capital Models review. The interim review of the Attestation Review is in the process of being finalised. The interim review of the Capital Adequacy Review has been completed. The external reviewer has reported that the Bank has made significant progress to address non-compliance issues and improvement areas identified by the Capital Adequacy Review, and the programme of work is expected to be completed by December 2021.

The Attestation Review and the Capital Adequacy Review have highlighted the need for a broader programme of improving the Bank's processes covered by those reviews, and this programme is now in its implementation phase.

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.

14. SUBSEQUENT EVENTS

On 31 March 2021, the RBNZ announced that it was easing the restrictions preventing banks from paying any dividends on ordinary shares and redeeming non-common equity tier 1 capital instruments that were put in place in April 2020. The changes to the dividend restrictions allow the Bank to pay up to a maximum of 50% of its earnings as dividends. The 50% dividend restriction will remain in place until 1 July 2022 at which point the RBNZ intends to remove the restrictions entirely, subject to no significant worsening in economic conditions. The Bank's conditions of registration were amended on 29 April 2021 to bring the 50% dividend restriction into effect.

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REGISTERED BANK DISCLOSURES

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 18 for further details, and to page 27 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 7 May 2021.

Changes in the Bank's Board of Directors

Michelle Jablko resigned as a Non-Executive Director on 1 February 2021. As at 7 May 2021, there have been no other changes to the Directors of the Bank since 30 September 2020, the balance date of the last full year disclosure statement.

Auditors

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

Conditions of registration

Changes to the Bank's conditions of registration

Effective 1 March 2021, the Bank's conditions of registration have been amended to include restrictions on high loan-to-valuation residential mortgage lending to owner-occupiers and investors.

Since 31 March 2021, the Bank's conditions of registration have been amended to:

- ease restrictions on dividends on ordinary shares to 50% of the Bank's earnings (effective 29 April 2021);
- include further restrictions on high loan-to-valuation residential mortgage lending to investors (effective 1 May 2021); and
- refer to updated versions of BS13 *Liquidity Policy* and BS13A *Liquidity Policy Annex: Liquid Assets* (effective 1 May 2021).

Material non-compliance with conditions of registration

A review of the Bank's compliance with the RBNZ's capital adequacy requirements was undertaken under section 95 of the RBNZ Act and was completed in April 2020. The Bank has accepted the improvements identified in the review, and is working to rectify its processes. The RBNZ has stated that it is confident the Bank will resolve this matter without issue, and has emphasised that the Banking Group remains sound and well capitalised.

As first reported in the disclosure statement for the year ended 30 September 2019, the Bank has not complied with condition of registration 1B in relation to the implementation of changes to rating models and processes that were not approved by the 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.

Affected models and the initial dates of non-compliance are:

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

The Bank's model compendium required under section 1.3B of BS2B was found to be non-compliant as it included unapproved model changes.

The first tranche of remediated models was submitted to the RBNZ for approval in August 2020, a second tranche was submitted in November 2020, with a third submission completed in April 2021. As at 30 April 2021, fourteen remediated models had been submitted to the RBNZ for approval, with the three remaining models expected to be submitted before the end of 2021.

Other matters relevant to the conditions of registration

There are other matters currently under review where there may be more than one valid interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation the Bank has applied, where appropriate it has sought guidance from, and will be liaising with, the RBNZ on these matters.

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 13 commitments and contingent liabilities.

REGISTERED BANK DISCLOSURES

Credit rating

As at 7 May 2021, 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.

The Bank's credit ratings are:

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

Other material matters

RBNZ review of capital requirements

Between May 2017 and December 2019, the RBNZ conducted a comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks. The RBNZ's final decisions on the capital review as they relate to the Bank are set out below. In response to the COVID-19 pandemic, the RBNZ delayed the start date for the increased capital requirements to support credit availability. The new regime is expected to be implemented in stages from 1 July 2021.

- 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 31 March 2021, the Bank had approximately NZ$2,741 million of AT1 instruments that will progressively lose eligible regulatory capital treatment over a seven year transition period from 1 July 2021 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 Banking Group will be required to report RWA, and resulting capital ratios, using both the internal models and the standardised approaches from 1 January 2022.

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

Since 30 September 2018, CET1 capital has increased by NZ$3.8 billion to NZ$12.9 billion at 31 March 2021 and total capital has increased by NZ$3.8 billion to NZ$15.7 billion, in preparation for these changes and due to the RBNZ's COVID-19 related dividend restrictions.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

As at 31 March 2021	NZ$m
Total interest earning and discount bearing assets	166,477
Total interest and discount bearing liabilities	133,037
Total amounts due from related entities	4,417
Total amounts due to related entities	6,514

Assets charged as security for liabilities

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

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 Bank's covered bond programme.

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

As at 31 March 2021	NZ$m
Securities sold under agreements to repurchase	1,113
Residential mortgages pledged as security for covered bonds	11,696

Additional information on the income statement

The amounts of net trading gains or losses and other fair value adjustments are included in Note 2 other operating income. The Banking Group does not have any loans and advances designated at fair value through profit or loss. Other operating income for the purposes of the Order comprises net fee and commission income, and all other items of other income (all in Note 2 other operating income).

REGISTERED BANK DISCLOSURES

Additional information on concentrations of credit risk

Analysis of financial assets by industry 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:

As at 31 March 2021	Loans and advances NZ$m	Other financial assets NZ$m	Off-balance sheet credit related commitments NZ$m	Total NZ$m
New Zealand residents				
Agriculture	16,743	57	1,107	17,907
Forestry and fishing, agriculture services	652	6	145	803
Manufacturing	2,437	167	2,138	4,742
Electricity, gas, water and waste services	1,066	486	1,838	3,390
Construction	1,168	16	864	2,048
Wholesale trade	1,207	86	1,790	3,083
Retail trade and accommodation	2,380	22	865	3,267
Transport, postal and warehousing	816	131	712	1,659
Finance and insurance services	901	8,705	1,831	11,437
Public administration and safety[1]	315	14,506	836	15,657
Rental, hiring & real estate services	37,195	1,360	2,324	40,879
Professional, scientific, technical, administrative and support services	872	8	458	1,338
Households	68,042	165	13,680	81,887
All other New Zealand residents[2]	1,985	112	1,898	3,995
Subtotal	135,779	25,827	30,486	192,092
Overseas				
Finance and insurance services	123	15,907	106	16,136
Households	1,185	3	-	1,188
All other non-NZ residents	673	14	-	687
Subtotal	1,981	15,924	106	18,011
Gross subtotal	137,760	41,751	30,592	210,103
Allowance for ECL	(617)	-	(144)	(761)
Subtotal	137,143	41,751	30,448	209,342
Unearned income	(23)	-	-	(23)
Capitalised brokerage and other origination costs	368	-	-	368
Maximum exposure to credit risk	137,488	41,751	30,448	209,687

1 Public administration and safety includes exposures to local government administration and central government administration, defence and public safety.
2 Other includes exposures to mining, information media and telecommunications, education and training, health care and social assistance and arts, recreation and other services.

Additional information on concentrations of funding

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

As at 31 March 2021	Note	NZ$m
Funding composition		
Customer deposits	8	122,786
Wholesale funding		
Debt issuances		20,752
Certificates of deposit and commercial paper		4,950
Other borrowings		1,124
Total wholesale funding		26,826
Total funding		149,612
Customer deposits by industry - New Zealand residents		
Agriculture, forestry and fishing		4,264
Manufacturing		2,764
Construction		2,951
Wholesale trade		2,487
Retail trade and accommodation		2,287
Financial and insurance services		12,958
Rental, hiring and real estate services		4,365
Professional, scientific, technical, administrative and support services		6,331
Public administration and safety		1,916
Arts, recreation and other services		2,179
Households		65,697
All other New Zealand residents[1]		5,072
		113,271
Customer deposits by industry - overseas		
Households		8,803
All other non-NZ residents		712
		9,515
Total customer deposits		122,786
Wholesale funding (financial and insurance services industry)		
New Zealand		6,294
Overseas		20,532
Total wholesale funding		26,826
Total funding		149,612
Concentrations of funding by geography		
New Zealand		119,565
Australia		1,171
United States		11,836
Europe		10,216
Other countries		6,824
Total funding		149,612

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

REGISTERED BANK DISCLOSURES

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.

As at 31 March 2021	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	5,579	5,327	-	-	-	-	252
Settlement balances receivable	447	-	-	-	-	-	447
Collateral paid	1,380	1,380	-	-	-	-	-
Trading securities	9,700	1,331	133	175	782	7,279	-
Derivative financial instruments	12,259	-	-	-	-	-	12,259
Investment securities	12,046	439	-	486	595	10,525	1
Net loans and advances	137,488	64,818	19,632	33,651	15,310	4,614	(537)
Other financial assets	551	-	-	-	-	-	551
Total financial assets	179,450	73,295	19,765	34,312	16,687	22,418	12,973
Liabilities							
Settlement balances payable	2,874	1,630	-	-	-	-	1,244
Collateral received	1,202	1,202	-	-	-	-	-
Deposits and other borrowings	128,860	83,996	13,872	7,247	2,397	1,066	20,282
Derivative financial instruments	11,111	-	-	-	-	-	11,111
Debt issuances	20,752	3,568	2,277	3,102	1,350	10,455	-
Lease liabilities	277	12	12	23	86	144	-
Other financial liabilities	869	598	-	-	-	-	271
Total financial liabilities	165,945	91,006	16,161	10,372	3,833	11,665	32,908
Hedging instruments	-	63,675	(65,857)	2,054	(3,210)	3,338	-
Interest sensitivity gap	13,505	45,964	(62,253)	25,994	9,644	14,091	(19,935)

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

Additional information on liquidity risk

Maturity analysis of financial liabilities

The table below provides residual contractual maturity analysis of financial liabilities at 31 March 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.

As at 31 March 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	2,510	365	-	-	-	2,875
Collateral received	-	1,202	-	-	-	1,202
Deposits and other borrowings	79,522	24,304	21,978	3,659	-	129,463
Derivative financial liabilities (trading)	-	8,971	-	-	-	8,971
Debt issuances[1]	-	1,025	5,431	10,481	4,577	21,514
Lease liabilities	-	13	39	169	81	302
Other financial liabilities	-	42	7	226	486	761
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,367	2,900	3,981	300	8,548
- gross outflows	-	(1,388)	(2,924)	(4,106)	(266)	(8,684)

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

At 31 March 2021, NZ$10 million of the Banking Group's NZ$14 million of non-credit related commitments and all NZ$30,592 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.

Liquidity portfolio

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

As at 31 March 2021	NZ$m
Cash and balances with central banks	4,939
Certificates of deposit	380
Central and local government bonds	11,997
Government treasury bills	329
Other bonds	7,853
Total liquidity portfolio	25,498

Assets held in the Banking Group's liquidity portfolio include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated New Zealand domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 31 March 2021, the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$20,559 million. The Bank also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$8,629 million at 31 March 2021.

Reconciliation of mortgage related amounts

As at 31 March 2021	Note	NZ$m
Term loans - housing[1]	5	95,081
Less: fair value hedging adjustment		(3)
Less: housing loans made to corporate customers		(1,682)
Add: unsettled re-purchases of mortgages from the NZ Branch		3
On-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	93,399
Add: off-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	8,925
Total residential mortgage exposures subject to the IRB approach (per LVR analysis)	B4	102,324

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 relating to COVID-19 and ECL included in Note 1, Note 6 and Note 11 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 2020	162	347	79	106	694
Transfer between stages	21	(20)	(2)	1	-
New and increased provisions (net of collective provision releases)	(33)	1	(15)	38	(9)
Write-backs	-	-	-	(36)	(36)
Recoveries of amounts previously written off	-	-	-	(10)	(10)
Credit impairment charge	(12)	(19)	(17)	(7)	(55)
Bad debts written-off (excluding recoveries)	-	-	-	(28)	(28)
Add back recoveries of amounts previously written off	-	-	-	10	10
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2021	150	328	62	77	617
Off-balance sheet credit related commitments - total					
As at 1 October 2020	79	55	3	22	159
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(11)	(1)	-	(3)	(15)
Credit impairment charge	(8)	(4)	-	(3)	(15)
As at 31 March 2021	71	51	3	19	144

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

Gross loans and advances - total	Stage 1	Stage 2	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
As at 1 October 2020	120,110	11,820	808	361	133,099
Net transfers in to each stage	3,150	147	35	8	3,340
Amounts drawn from new or existing facilities	22,623	535	61	62	23,281
Additions	25,773	682	96	70	26,621
Net transfers out of each stage	(189)	(3,096)	(55)	-	(3,340)
Amounts repaid	(16,622)	(1,716)	(166)	(88)	(18,592)
Deletions	(16,811)	(4,812)	(221)	(88)	(21,932)
Amounts written off	-	-	-	(28)	(28)
As at 31 March 2021	129,072	7,690	683	315	137,760
Loss allowance as at 31 March 2021	150	328	62	77	617
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	15	121	7	1	144
New and increased facilities and drawn amounts repaid	4,648	173	9	3	4,833
Additions	4,663	294	16	4	4,977
Net transfers out of each stage	(129)	(15)	-	-	(144)
Reduced facilities and amounts drawn	(5,003)	(240)	(4)	(10)	(5,257)
Deletions	(5,132)	(255)	(4)	(10)	(5,401)
As at 31 March 2021	29,032	1,494	31	35	30,592
Loss allowance as at 31 March 2021	71	51	3	19	144

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

Overall, loss allowances are 0.45% of gross balances as at 31 March 2021, down from 0.52% as at 30 September 2020. The NZ$92 million (10.8%) 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 as described in Note 6 to the financial statements.

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 2020 [1]	20	63	29	8	120
Transfer between stages	13	(12)	(1)	-	-
New and increased provisions (net of collective provision releases)	(14)	(4)	(15)	3	(30)
Write-backs	-	-	-	(3)	(3)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge	(1)	(16)	(16)	-	(33)
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 31 March 2021	19	47	13	8	87

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 31 March 2021	-	-	-	-	-

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

Gross loans and advances - residential mortgages					
As at 1 October 2020	81,057	5,859	512	24	87,452
Net transfers in to each stage	3,150	-	-	1	3,151
Amounts drawn from new or existing facilities	17,147	254	5	8	17,414
Additions	20,297	254	5	9	20,565
Net transfers out of each stage	-	(3,096)	(55)	-	(3,151)
Amounts repaid	(10,633)	(742)	(77)	(15)	(11,467)
Deletions	(10,633)	(3,838)	(132)	(15)	(14,618)
Amounts written off	-	-	-	-	-
As at 31 March 2021	90,721	2,275	385	18	93,399
Loss allowance as at 31 March 2021	19	47	13	8	87

Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2020	8,793	73	-	-	8,866
Net transfers in to each stage	15	-	-	-	15
New and increased facilities and drawn amounts repaid	1,348	6	1	-	1,355
Additions	1,363	6	1	-	1,370
Net transfers out of each stage	-	(15)	-	-	(15)
Reduced facilities and amounts drawn	(1,285)	(11)	-	-	(1,296)
Deletions	(1,285)	(26)	-	-	(1,311)
Amounts written off	-	-	-	-	-
As at 31 March 2021	8,871	53	1	-	8,925
Loss allowance as at 31 March 2021	-	-	-	-	-

1 Amounts have been updated to reclassify a total net NZ$17 million relating to residential mortgages previously included in corporate.

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$33 million (27.3%) decrease in loss allowances on residential mortgage exposures is primarily driven by changes in the forward looking economic scenarios as described in Note 6 to the financial statements. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 93% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80% (refer to page 40).

REGISTERED BANK DISCLOSURES

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 2020 [1]	11	60	26	8	105
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(6)	(1)	(7)	20	6
Write-backs	-	-	-	(3)	(3)
Recoveries of amounts previously written off	-	-	-	(9)	(9)
Credit impairment charge / (release)	(1)	(6)	(7)	8	(6)
Bad debts written-off (excluding recoveries)	-	-	-	(18)	(18)
Add back recoveries of amounts previously written off	-	-	-	9	9
Discount unwind	-	-	-	-	-
As at 31 March 2021	10	54	19	7	90
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)	(8)	1	(1)	-	(8)
Credit impairment charge	(5)	(2)	(1)	-	(8)
As at 31 March 2021	14	11	2	-	27

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]	2,570	165	49	11	2,795
Net transfers in to each stage	-	20	9	1	30
Amounts drawn from new or existing facilities	331	11	2	20	364
Additions	331	31	11	21	394
Net transfers out of each stage	(30)	-	-	-	(30)
Amounts repaid	(407)	(32)	(20)	(3)	(462)
Deletions	(437)	(32)	(20)	(3)	(492)
Amounts written off	-	-	-	(18)	(18)
As at 31 March 2021	2,464	164	40	11	2,679
Loss allowance as at 31 March 2021	10	54	19	7	90
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2020 [2]	5,183	47	15	-	5,245
Net transfers in to each stage	-	13	2	-	15
New and increased facilities and drawn amounts repaid	139	4	2	-	145
Additions	139	17	4	-	160
Net transfers out of each stage	(15)	-	-	-	(15)
Reduced facilities and amounts drawn	(268)	(9)	(4)	-	(281)
Deletions	(283)	(9)	(4)	-	(296)
As at 31 March 2021	5,039	55	15	-	5,109
Loss allowance as at 31 March 2021	14	11	2	-	27

1 Amounts have been updated to reclassify a total net NZ$31 million relating to other retail exposures previously included in corporate.
2 For consistency with capital adequacy classifications, amounts have been updated to reclassify NZ$1,179 million of gross loans and advances previously included in corporate and NZ$635 million of off balance sheet credit related commitments to corporate.

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

The NZ$23 million (16.4%) decrease in loss allowances is primarily driven by changes in the forward looking economic scenarios as described in Note 6 to the financial statements.

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[2]	131	224	24	90	469
Transfer between stages	3	(3)	(1)	1	-
New and increased provisions (net of collective provision releases)	(13)	6	7	15	15
Write-backs	-	-	-	(30)	(30)
Recoveries of amounts previously written off	-	-	-	(1)	(1)
Credit impairment charge	(10)	3	6	(15)	(16)
Bad debts written-off (excluding recoveries)	-	-	-	(10)	(10)
Add back recoveries of amounts previously written off	-	-	-	1	1
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2021	121	227	30	62	440

Off-balance sheet credit related commitments - 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	60	42	-	22	124
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	(3)	(2)	1	(3)	(7)
Credit impairment charge	(3)	(2)	1	(3)	(7)
As at 31 March 2021	57	40	1	19	117

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[3]	36,483	5,796	247	326	42,852
Net transfers in to each stage	-	127	26	6	159
Amounts drawn from new or existing facilities	5,145	270	54	34	5,503
Additions	5,145	397	80	40	5,662
Net transfers out of each stage	(159)	-	-	-	(159)
Amounts repaid	(5,582)	(942)	(69)	(70)	(6,663)
Deletions	(5,741)	(942)	(69)	(70)	(6,822)
Amounts written off	-	-	-	(10)	(10)
As at 31 March 2021	35,887	5,251	258	286	41,682
Loss allowance as at 31 March 2021	121	227	30	62	440

Off-balance sheet credit related commitments - 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[3]	15,525	1,335	4	41	16,905
Net transfers in to each stage	-	108	5	1	114
New and increased facilities and drawn amounts repaid	3,161	163	6	3	3,333
Additions	3,161	271	11	4	3,447
Net transfers out of each stage	(114)	-	-	-	(114)
Reduced facilities and amounts drawn	(3,450)	(220)	-	(10)	(3,680)
Deletions	(3,564)	(220)	-	(10)	(3,794)
As at 31 March 2021	15,122	1,386	15	35	16,558
Loss allowance as at 31 March 2021	57	40	1	19	117

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.
2 Amounts have been updated to reclassify aggregate amounts of NZ$17 million to residential mortgages and NZ$31 million to other retail.
3 For consistency with capital adequacy classifications of other retail exposures, amounts have been updated to reclassify NZ$1,179 million of gross loans and advances to other retail exposures and NZ$635 million of off balance sheet credit related commitments from other retail exposures.

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

The NZ$36 million (6.1%) decrease in loss allowances is primarily driven by small decrease in the proportion of gross balances in Stage 2 and changes in the forward looking economic scenarios as described in Note 6 to the financial statements.

Past due assets and other asset quality information

As at 31 March 2021	Residential mortgages NZ$m	Other retail exposures NZ$m	Corporate exposures NZ$m	Total NZ$m
Past due assets				
Less than 30 days past due	449	91	259	799
At least 30 days but less than 60 days past due	139	16	200	355
At least 60 days but less than 90 days past due	67	8	36	111
At least 90 days past due	347	26	15	388
Total past due but not individually impaired	1,002	141	510	1,653
Other asset quality information				
Undrawn facilities with impaired customers	-	-	35	35
Other assets under administration	3	1	-	4

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

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

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
As at 31 March	RBNZ minimum	2021	2020	2021	2020
Common equity tier 1 capital	4.5%	**13.1%**	11.1%	**12.7%**	10.7%
Tier 1 capital	6.0%	**15.9%**	13.9%	**15.5%**	13.5%
Total capital	8.0%	**15.9%**	13.9%	**15.5%**	13.5%
Buffer ratio	2.5%	**7.9%**	5.9%	**n/a**	n/a

Capital of the Banking Group

As at 31 March 2021	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)	4,838
Accumulated other comprehensive income and other disclosed reserves	119
Less deductions from common equity tier 1 capital	
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,088)
Deferred tax assets less deferred tax liabilities relating to temporary differences	(396)
Cash flow hedge reserve	(77)
Expected losses to the extent greater than total eligible allowances for impairment	(73)
Common equity tier 1 capital	12,911
Additional tier 1 capital	
Preference shares[1]	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2]	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[2]	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[2]	938
Retained earnings of the Bonus Bonds Scheme[3]	102
Less deductions from additional tier 1 capital	
Surplus retained earnings of the Bonus Bonds Scheme[3]	(91)
Additional tier 1 capital	2,752
Total tier 1 capital	15,663
Tier 2 capital	-
Total capital	15,663

1 Classified as equity on the balance sheet under NZ GAAP.
2 Classified as a liability on the balance sheet under NZ GAAP.
3 Bonus Bonds Scheme is not consolidated on the balance sheet under NZ GAAP but retained earnings are classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 31 March 2021	Total exposures after credit risk mitigation NZ$m	Risk weighted exposure or implied risk weighted exposure[1] NZ$m	Total capital requirement NZ$m
Total credit risk	204,516	67,189	5,375
Operational risk	n/a	10,234	819
Market risk	n/a	5,671	454
Supervisory adjustment	n/a	15,387	1,231
Total	n/a	98,481	7,879

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

Capital structure

Ordinary shares– common equity tier 1 capital

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

Preference shares– additional tier 1 capital

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

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

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

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

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

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

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

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

Additional tier 1 (AT1) capital notes

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

As at 31 March 2021, ANZ NZ CN carried a BBB- credit rating from S&P Global Ratings.

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

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

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

REGISTERED BANK DISCLOSURES

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

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

if:

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

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

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

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

The table below show the key details of the AT1 capital notes on issue at 31 March 2021:

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

Reserves – common equity tier 1 capital

Accumulated other comprehensive income and other disclosed reserves includes the cash flow hedging reserve of NZ$77 million and the investment securities revaluation reserve of NZ$42 million as at 31 March 2021.

Retained earnings of the Bonus Bonds Scheme – additional tier 1 capital

The Bonus Bonds Scheme is consolidated for capital adequacy purposes, and its retained earnings are included in additional tier 1 capital less 8.5% of the consolidated risk-weighted assets that relate to the Bonus Bonds Scheme.

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

IRB credit exposures by exposure class and customer credit rating

As at 31 March 2021	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	68,818	6,071	62	36	2,301	184
3 - 4	0.31	43,059	22,380	37	41	9,648	772
5	1.00	13,923	11,367	33	58	7,022	562
6	2.26	4,099	3,678	32	75	2,906	232
7 - 8	17.49	1,820	1,521	40	177	2,852	228
Default	100.00	642	630	39	165	1,103	89
Total corporate exposures[1]	2.55	132,361	45,647	39	53	25,832	2,067
Sovereign							
0	0.01	27,287	16,670	5	1	230	18
1 - 8	0.47	92	87	5	6	5	1
Total sovereign exposures	0.01	27,379	16,757	5	1	235	19
Bank							
0	0.03	1	1	65	51	-	-
1	0.03	43,773	3,518	37	27	1,006	80
2 - 4	0.05	2,266,361	6,145	65	27	1,767	141
5 - 8	10.85	2	2	65	223	4	1
Total bank exposures	0.05	2,310,137	9,666	55	27	2,777	222
Residential mortgages							
0 - 3	0.20	34,587	34,972	12	5	2,023	162
4	0.45	42,630	42,772	20	16	7,341	587
5	0.90	21,038	21,124	24	32	7,262	581
6	1.95	3,426	3,430	26	60	2,197	176
7 - 8	4.68	235	235	26	91	228	18
Default	100.00	408	407	16	6	25	2
Total residential mortgages exposures	0.91	102,324	102,940	19	17	19,076	1,526
Other retail							
0 - 2	0.10	543	546	77	49	286	23
3 - 4	0.26	4,551	4,633	78	55	2,701	216
5	1.10	1,146	1,157	78	83	1,020	82
6	2.70	685	717	83	108	823	66
7 - 8	8.62	810	836	87	137	1,212	97
Default	100.00	53	52	81	44	25	1
Total other retail exposures	2.14	7,788	7,941	79	72	6,067	485
Total credit risk exposures subject to the IRB approach	1.25	2,579,989	182,951	27	28	53,987	4,319

1 During the six months ended 31 March 2021, two immaterial issues impacting the calculation of RWA for corporate exposures were identified. They related to the tenor treatment for performance guarantee products (estimated impact +NZ$106m RWA) and the measurement of security coverage for corporate customers with residential mortgages (estimated impact +NZ$143m RWA). There is no impact on reported capital ratios and remediation is in progress.

REGISTERED BANK DISCLOSURES

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

As at 31 March 2021	Total value NZ$m	Exposure at default NZ$m
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	13,059	12,321
Sovereign	91	86
Bank	1,315	1,154
Residential mortgages	8,925	9,368
Other retail	5,109	5,199
Market related contracts		
Corporate	87,210	1,705
Sovereign	10,567	106
Bank	2,304,020	4,039
Residential mortgages	-	-
Other retail	-	-

Additional mortgage information

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

As at 31 March 2021	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	45,957	6,261	52,218
Exceeds 60% and not 70%	19,631	1,218	20,849
Exceeds 70% and not 80%	21,841	1,063	22,904
Does not exceed 80%	87,429	8,542	95,971
Exceeds 80% and not 90%	4,299	148	4,447
Exceeds 90%	1,671	235	1,906
Total	93,399	8,925	102,324

Specialised lending subject to the slotting approach

As at 31 March 2021	Total exposures after credit risk mitigation NZ$m	Risk weight %	Risk weighted assets NZ$m	Minimum Pillar 1 capital requirement NZ$m
On-balance sheet exposures				
Strong	5,924	70	4,396	352
Good	5,175	90	4,937	395
Satisfactory	408	115	497	40
Weak	80	250	211	16
Default	13	-	-	-

As at 31 March 2021	Exposure at default NZ$m	Average risk weight %	Risk weighted assets NZ$m	Minimum Pillar 1 capital requirement NZ$m
Off-balance sheet exposures				
Undrawn commitments and other off-balance sheet exposures	1,397	86	1,277	102

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-.

Credit risk exposures subject to the standardised approach

As at 31 March 2021	Total exposure after credit risk mitigation NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
On-balance sheet exposures				
Cash and gold bullion	211	-	-	-
Sovereign and central banks	4,696	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	1,215	7	94	8
Residential mortgages	-	-	-	-
Past due assets	-	-	-	-
Other assets	1,152	100	1,221	98

As at 31 March 2021	Total exposure or principal amount NZ$m	Average credit conversion factor %	Credit equivalent amount NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Off-balance sheet exposures						
Undrawn commitments and other off-balance sheet exposures	631	72	452	99	473	38
Market related contracts						
Foreign exchange contracts	-	n/a	-	-	-	-
Interest rate contracts	1,469,287	n/a	841	10	91	7
Other - OTC etc	-	n/a	-	-	-	-

Equity exposures

As at 31 March 2021	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-

Credit risk mitigation

Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

As at 31 March 2021	For portfolios subject to the standardised approach: total value of exposures covered by eligible financial collateral (after haircut) NZ$m	For all portfolios: total value of exposures covered by guarantees or credit derivatives[1] NZ$m
Exposure class		
Sovereign	-	-
Bank	-	-
Corporate (including specialised lending)	-	833
Residential mortgage	-	-
Other	-	-

1 Covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures.

REGISTERED BANK DISCLOSURES

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 31 March 2021, the Banking Group had an implied risk weighted exposure of NZ$10,234 million for operational risk and an operational risk capital requirement of NZ$819 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 31 March 2021.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end	Peak	Period end	Peak
As at 31 March 2021	NZ$m	NZ$m	NZ$m	NZ$m
Interest rate risk	5,598	11,377	448	910
Foreign currency risk	72	112	6	9
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. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk. As at 31 March 2021, the Banking Group's internal capital allocation for these other material risks is NZ$274 million (March 2020: NZ$343 million).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
As at 31 March	2021	2020	2021	2020
Common equity tier 1 capital	12.4%	10.8%	12.2%	10.6%
Tier 1 capital	14.3%	12.5%	14.2%	12.6%
Total capital	18.3%	15.5%	18.6%	15.8%

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

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

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Pacific, and local corporates in Asia) where 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 31 March 2021 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 31 March 2021. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 31 March 2021, 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 2 April 2020, the minimum amount of core funding was lowered from 75% to 50% 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	31 Mar 21	31 Dec 20
Quarterly average 1-week mismatch ratio	6.5%	9.2%
Quarterly average 1-month mismatch ratio	6.2%	9.1%
Quarterly average core funding ratio	90.8%	92.3%

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 31 Mar 21	Peak end of day over 6 months to 31 Mar 21
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	1	1
with a long-term credit rating of A- or A3 or above, or its equivalent	1	1
- 10% to less than 15% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
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	1	1
- 30% to less than 35% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

B6. INSURANCE BUSINESS

As at 31 March 2021, the Banking Group does not conduct any insurance business.

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 six months ended 31 March 2021, 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 25[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 the 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, 7 May 2021.

Antony Carter

Shayne Elliott

Alison Gerry

Rt Hon Sir John Key, GNZM AC

Mark Verbiest

Antonia Watson

Joan Withers

INDEPENDENT AUDITOR'S REVIEW REPORT

KPMG

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE HALF YEAR DISCLOSURE STATEMENT

REPORT ON THE INTERIM FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTIONS B2, B3, B5 AND B6

CONCLUSION

Based on our review of the interim financial statements and the registered bank disclosures (together referred to as 'the half year disclosure statement') of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) on pages 4 to 43, nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 4 to 22 do not present fairly in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, in all material respects, the Banking Group's financial position as at 31 March 2021 and its financial performance and cash flows for the six month period ended on that date; and
- the registered bank disclosures in sections B2, B3, B5 and B6 disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order) respectively, do not fairly state, in all material respects, the matters to which they relate in accordance with those schedules.

We have completed a review of the accompanying half year disclosure statement which comprises:

- the interim financial statements formed of:
  - the consolidated balance sheet as at 31 March 2021;
  - the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the six month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the registered bank disclosures prescribed in Schedules 5, 7, 13, 16 and 18 of the Order.

BASIS FOR CONCLUSION

A review of the half year disclosure statement 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, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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.

Our firm has also provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance, agreed upon procedures and other assurance engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as reviewer 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 half year 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.

Further details of the matters relating to capital adequacy are described below in our qualified review conclusion on the registered bank disclosures in section B4 relating to capital adequacy and regulatory liquidity ratios.

Our conclusion on the interim financial statements and registered bank disclosures in sections B2, B3, B5 and B6 is not modified in respect of these matters.

RESPONSIBILITIES OF THE DIRECTORS FOR THE INTERIM FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTIONS B1, B2, B3, B5 AND B6

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the interim financial statements and registered bank disclosures in accordance with IAS 34, NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order;
- implementing necessary internal controls to enable the preparation of interim 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.

INDEPENDENT AUDITOR'S REVIEW REPORT

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE INTERIM FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTIONS B2, B3, B5 AND B6

Our responsibility is to express a conclusion on the interim financial statements and registered bank disclosure statements in sections B2, B3, B5 and B6 based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to attention that causes us to believe that:

- the interim financial statements do not present fairly, in all material respects, the Banking Group's financial position as at 31 March 2021 and its financial performance and cash flows for the six month period ended on that date;
- the interim financial statements do not, in all material respects, comply with IAS 34 and NZ IAS 34; and
- the registered bank disclosures in sections B2, B3, B5 and B6 does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the interim financial statements and the registered bank disclosures in sections B2, B3, B5 and B6. This description forms part of our independent review report.

REPORT ON THE REGISTERED BANK DISCLOSURES IN SECTION B4 RELATING TO CAPITAL ADEQUACY AND REGULATORY LIQUIDITY RATIOS (SECTION B4)

QUALIFIED REVIEW CONCLUSION

We have reviewed the registered bank disclosures, as disclosed in section B4 of the half year disclosure statement for the six month period ended 31 March 2021, which are required to be disclosed in accordance with Schedule 11 of the Order.

Based on our review, with the exception of the matter described below, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy and Regulatory Liquidity Ratios, disclosed in section B4 of the half year disclosure statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

BASIS FOR QUALIFIED CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

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

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

As described in section B1, the Banking Group has identified that it was not compliant with Condition of Registration 1B in relation to the operation of versions of the following rating models and processes, which were not approved by the Reserve Bank of New Zealand (in some cases since 2008):

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

In this respect, the Capital Adequacy Ratios disclosed in section B4 of the half year disclosure statement have not been disclosed in accordance with Schedule 11 of the Order, with section B1 disclosing the Banking Group's calculation of the corresponding impact on risk weighted assets. The Banking Group is remediating these models and has submitted fourteen of the seventeen affected models to the Reserve Bank of New Zealand for approval.

The above matters do not affect the Regulatory Liquidity information, which is also disclosed in section B4.

RESPONSIBILITIES OF THE DIRECTORS FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors, on behalf of the Banking Group, are responsible for the preparation and fair presentation of the registered bank disclosures in section B4 of the half year disclosure statement in accordance with Schedule 11 of the Order.

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

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the registered bank disclosures in section B4 is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

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

USE OF THIS INDEPENDENT REVIEW REPORT

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

KPMG

KPMG
Auckland

7 May 2021

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