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

FOR THE SIX MONTHS ENDED 31 MARCH 2020
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REGISTERED BANK DISCLOSURE STATEMENT

FOR THE SIX MONTHS ENDED 31 MARCH 2020

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DISCLOSURE STATEMENT

GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

Banking Group means the Bank and all its controlled entities.

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

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

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

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

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

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

UDC means UDC Finance Limited.

Registered Office is Level 10, 171 Featherston Street, Wellington, New Zealand, which is also ANZ New Zealand's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

the Order means the Registered Bank Disclosure Statements (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

INCOME STATEMENT

For the six months ended 31 March	Note	2020 NZ$m	2019 NZ$m
Interest income		3,006	3,322
Interest expense		(1,358)	(1,696)
Net interest income		1,648	1,626
Other operating income	2	507	373
Net income from insurance business		-	27
Share of associates' profit		-	4
Operating income		2,155	2,030
Operating expenses	3	(836)	(745)
Profit before credit impairment and income tax		1,319	1,285
Credit impairment charge	7	(232)	(32)
Profit before income tax		1,087	1,253
Income tax expense		(298)	(324)
Profit for the period		789	929

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
Profit for the period	789	929
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	(17)	(16)
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(65)	-
Realised losses transferred to the income statement	14	4
Income tax attributable to the above items	19	3
Other comprehensive income after tax	(49)	(9)
Total comprehensive income for the period	740	920

The notes appearing on pages 7 to 23 form an integral part of these financial statements

INTERIM FINANCIAL STATEMENTS

BALANCE SHEET

As at	Note	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Assets			
Cash and cash equivalents	5	7,746	2,709
Settlement balances receivable		404	193
Collateral paid		2,527	2,324
Trading securities		11,679	8,942
Derivative financial instruments		13,246	11,653
Investment securities		7,293	7,027
Net loans and advances	6	135,679	133,264
Deferred tax assets		293	80
Goodwill and other intangible assets		3,267	3,276
Premises and equipment		620	335
Other assets		670	689
Total assets		183,424	170,492
Liabilities			
Settlement balances payable		2,215	1,590
Collateral received		1,290	991
Deposits and other borrowings	8	124,091	117,071
Derivative financial instruments		12,505	10,912
Current tax liabilities		110	110
Payables and other liabilities		1,212	1,174
Employee entitlements		145	138
Other provisions	9	329	314
Debt issuances	10	28,205	25,593
Total liabilities (excluding head office account)		170,102	157,893
Net assets (excluding head office account)		13,322	12,599
Equity			
Share capital and initial head office account		11,055	11,055
Reserves		(15)	21
Retained earnings		2,282	1,523
Total equity & head office account		13,322	12,599

The notes appearing on pages 7 to 23 form an integral part of these financial statements

CASH FLOW STATEMENT

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
Profit after income tax	789	929
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation and amortisation	69	41
Loss on sale and impairment of premises and equipment	-	5
Net derivatives/foreign exchange adjustment	1,203	(16)
Proceeds from divestments net of intangibles disposed of, classified as investing activities	-	(646)
Other non-cash movements	118	(146)
Net (increase)/decrease in operating assets:		
Collateral paid	(203)	(451)
Trading securities	(2,737)	481
Net loans and advances	(2,415)	(3,111)
Other assets	(405)	625
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings (excluding borrowings from Immediate Parent and Ultimate Parent Bank)	7,639	2,968
Settlement balances payable	625	476
Collateral received	299	(326)
Other liabilities	(264)	(421)
Total adjustments	3,929	(521)
Net cash flows from operating activities[1]	4,718	408
Cash flows from investing activities		
Investment securities:		
Purchases	(1,050)	(1,054)
Proceeds from sale or maturity	768	1,288
Proceeds from divestments	-	747
Other assets	(21)	(51)
Net cash flows from investing activities	(303)	930
Cash flows from financing activities		
Debt issuances[2]		
Issue proceeds	2,327	3,240
Redemptions	(966)	(3,145)
Borrowings from Immediate Parent and Ultimate Parent Bank:[3]		
Loans drawn down	-	512
Repayments	(715)	(1,280)
Repayment of lease liabilities[4]	(24)	-
Dividends paid	-	(375)
Net cash flows from financing activities	622	(1,048)
Net change in cash and cash equivalents	5,037	290
Cash and cash equivalents at beginning of period	2,709	2,407
Cash and cash equivalents at end of period	7,746	2,697

1 Net cash provided by operating activities includes income taxes paid of NZ$485 million (2019: NZ$519 million).

2 Movement in debt issuances (Note 10 Debt Issuances) also includes a NZ$836 million increase (2019: NZ$942 million decrease) from the effect of foreign exchange rates, a NZ$320 million increase (2019: NZ$341 million increase) from changes in fair value hedging instruments and a NZ$95 million increase (2019: NZ$89 million decrease) from other changes.

3 Movement in borrowings from Immediate Parent and Ultimate Parent Bank (Note 8 Deposit and Other Borrowings) also includes a NZ$32 million increase (2019: NZ$83 million decrease) from the effect of foreign exchange rates and a NZ$64 million increase (2019: NZ$54 million increase) from changes in fair value hedging instruments.

4 Relates to repayments of lease liabilities which ANZ New Zealand commenced recognising on 1 October 2019 following the adoption of NZ IFRS 16. Comparative information has not been restated.

The notes appearing on pages 7 to 23 form an integral part of these financial statements

INTERIM FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital and initial head office account 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 2018		11,055	11	22	148	11,236
Impact on transition to NZ IFRS 9 *Financial Instruments*		-	-	-	(52)	(52)
As at 1 October 2018 (adjusted)		11,055	11	22	96	11,184
Profit or loss		-	-	-	929	929
Unrealised gains / (losses) recognised directly in equity		-	(7)	7	-	-
Realised losses transferred to the income statement		-	-	4	-	4
Actuarial loss on defined benefit schemes		-	-	-	(16)	(16)
Income tax credit / (expense) on items recognised directly in equity		-	2	(3)	4	3
Total comprehensive income for the period		-	(5)	8	917	920
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid		-	-	-	(375)	(375)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(375)	(375)
As at 31 March 2019		11,055	6	30	638	11,729
As at 1 October 2019		11,055	(6)	27	1,523	12,599
Impact on transition to NZ IFRS 16 *Leases*	1	-	-	-	(17)	(17)
As at 1 October 2019 (adjusted)		11,055	(6)	27	1,506	12,582
Profit or loss		-	-	-	789	789
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)	776	740
As at 31 March 2020		11,055	(33)	18	2,282	13,322

The notes appearing on pages 7 to 23 form an integral part of these financial statements

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim financial statements (financial statements) for ANZ New Zealand were issued on 26 May 2020 and should be read in conjunction with ANZ New Zealand's financial statements for the year ended 30 September 2019.

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*.

Presentation currency and rounding

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

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.

Use of estimates, assumptions and judgements

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 half year ended 31 March 2020 follows:

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The estimation uncertainty is associated with:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes the disruption to capital markets, deteriorating credit quality, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- 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 and economic downturn.

ANZ New Zealand has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts, particularly given the substantial uncertainty as to how long the period of significant lockdown restrictions and flow on impacts will last, and the outlook for recovery. The underlying assumptions are also subject to uncertainties which are often outside the control of ANZ New Zealand. 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 and recoverable amount assessments of non-financial assets. The impact of the COVID-19 pandemic on each of these accounting estimates is discussed further below and/or in the relevant note to these financial statements. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

Allowance for expected credit losses

ANZ New Zealand measures the allowance for expected credit losses (ECL) using an expected credit loss impairment model as required by NZ IFRS 9 *Financial Instruments* (NZ IFRS 9). ANZ New Zealand's accounting policy for the recognition and measurement of the allowance for ECL is described at Note 12 to ANZ New Zealand's Financial Statements for the year ended 30 September 2019.

The table below shows ANZ New Zealand's allowance for ECL (refer to Note 7 and Note 11 for further information).

As at	Mar 20 NZ$m	Sep 19 NZ$m
Individually assessed	98	109
Collectively assessed	675	487
Total[1]	773	596

1. Includes allowance for ECL for Net Loans and advances – at amortised cost and Off-balance sheet commitments – undrawn and contingent facilities.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Individually assessed ECL

In estimating individually assessed ECL for Stage 3 exposures, ANZ New Zealand makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, the 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 potential impact of COVID-19.

Collectively assessed ECL

During the six months ended 31 March 2020 the collectively assessed allowance for ECL increased by NZ$188 million. This was attributable to changes in economic outlook of NZ$167 million and changes in portfolio composition and risk of NZ$21 million.

In estimating collectively assessed ECL, ANZ New Zealand makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology, noting that the modelling of ANZ New Zealand's ECL estimates are complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

The modelling methodology applied in estimating ECL in these financial statements is consistent with that applied in ANZ New Zealand's Financial Statements for the year ended 30 September 2019.

The impact of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. This uncertainty is reflected in ANZ New Zealand's assessment of ECL from its credit portfolio which are subject to a number of management judgements and estimates.

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 six months ended 31 March 2020.

The judgements and associated assumptions have been made within 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. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, ANZ New Zealand's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/assumption	Description	Changes and considerations during the six months ended 31 March 2020
Determining when a significant increase in credit risk (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 ECL. 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.	Various initiatives, such as payment deferrals have been offered to customers in the six months ended 31 March 2020 recognising the potential detrimental impact of COVID-19. Such offers, if accepted, are not automatically considered to indicate SICR but are used as necessary within the broader set of indicators used to assess and grade customer facilities.
Measuring both 12-month and lifetime credit losses	ECL is a function of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) which 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 the sensitivity of the parameters to movements in these forward looking variables.	The PD, EAD and LGD models are subject to ANZ New Zealand's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. There were no material changes to the models during the six months ended 31 March 2020.
	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 changes to behavioural lifetime estimates during the six months ended 31 March 2020.

Judgement/assumption	Description	Changes and considerations during the six months ended 31 March 2020
Base case economic forecast	ANZ New Zealand derives a forward looking "base case" economic scenario which reflects our view of the most likely 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 six months ended 31 March 2020. As at 31 March 2020, the base case assumptions have been updated to reflect the rapidly evolving global situation with respect to COVID-19. This includes an assessment of the impact of central bank (monetary policy), government (wage subsidies), and institution specific responses (such as payment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 31 March 2020 and those previously used at 30 September 2019 are described below under the heading "Forecast base case assumptions".
Probability weighting of each scenario (base case, upside[1], downside[1] and severe downside[2] scenarios)	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 continuing impact of COVID-19. In addition to the base case forecast which reflects largely the negative economic consequences of COVID-19, greater weighting has been applied to the downside and severe downside scenarios (base 50%, upside 4%, downside 36% and severe downside 10%) given ANZ New Zealand'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. ANZ New Zealand 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 ANZ New Zealand's credit portfolios in determining them.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are adjustments 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.	Temporary adjustments for agriculture industry exposures increased by NZ$15 million, to a total of NZ$30 million as at 31 March 2020. Also, temporary adjustments have been assessed in the context of COVID-19 and the extent that associated credit loss exposures are captured within the modelled economic scenarios, with no further temporary adjustments considered necessary.

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.

Base case economic forecast assumptions

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

- The extent and duration of measures to stop or reduce the speed of 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

ANZ New Zealand's base case economic forecast scenarios reflects a sharp deterioration in economic conditions in the second quarter with a gradual improvement thereafter. It reflects a widespread shutdown in the second quarter of calendar 2020 followed thereafter by a progressive relaxation of lockdown restrictions.

The economic drivers of the base case economic forecasts at 31 March 2020 and those that were used at 30 September 2019 are set out below. These reflect ANZ New Zealand's view, at the respective reporting dates, of the most likely future macro-economic conditions.

New Zealand	Base case economic forecast as at 31 March 2020	Base case economic forecast as at 30 September 2019
• GDP	Expected sizeable contraction in GDP in June quarter, starting to recover partially over the remainder of the year. Moderate GDP growth is expected in 2021. GDP is expected to contract by 17% in the June 2020 quarter, starting to recover in the September 2020 quarter once activity resumes, with an overall contraction of 6.7% over the 2020 calendar year. GDP is expected to grow by 4.2% in calendar year 2021.	Expected to improve modestly.
• Unemployment rate	Unemployment is expected to increase significantly over the June quarter, recovering gradually over the remainder of 2020 and 2021, but remaining significantly higher than levels of first half of 2020. It is expected to average 7.4% for calendar year 2020 and 7.7% for calendar year 2021.	Expected to remain stable.
• Residential property prices	Property prices are expected to contract by 1.9% in calendar year in 2020, followed by 6.0% growth in calendar year 2021.	Expected to achieve modest levels of growth.
• Commercial property prices	Property prices are expected to increase moderately in 2020, continuing but less so in 2021. Expected to grow by 3.1% in calendar year 2020 and a further 0.5% in 2021.	Expected to grow, however, the growth rate is expected to be modest through the forecast period.
• Consumer price index	CPI growth is forecast at slightly lower levels than 2019 across 2020 and 2021. CPI growth is forecast at 1.5% for calendar year 2020 and 1.5% for calendar year 2021.	Expected to rise modestly.

Sensitivity analysis

The uncertainty of the impact of COVID-19 introduced significant estimation uncertainty in relation to the measurement of ANZ New Zealand's allowance for ECL. While a combined 46% weighting has been applied to the downside and severe downside scenarios as at 31 March 2020, the rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance within the current and next financial years.

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

The table below illustrates the sensitivity of ECL to key factors used in determining it:

ECL sensitivity - weightings applied to forecast scenarios	Total ECL NZ$m	Impact NZ$m
100% upside scenario	322	(353)
100% base scenario	575	(100)
100% downside scenario	766	91
100% severe downside scenario	986	311

Customer remediation and other provisions

ANZ New Zealand holds provisions for various obligations including customer remediation, restructuring costs, leasehold make good and litigation related claims (refer to Note 9). These provisions involve judgements regarding the outcome of future events, including estimates of expenditure required to satisfy such obligations. Where relevant, expert legal advice has been obtained and, in light of such advice, provisions and/or disclosures as deemed appropriate have been made.

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including, the number of impacted customers, the average refund per customer and the associated remediation costs. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments are made to the provisions where appropriate.

Annual goodwill impairment testing

Management judgement is used to assess the recoverable value of goodwill. Goodwill is assessed for indicators of impairment half-yearly and tested for impairment annually. The level at which goodwill is allocated, the estimation of future cash flows and the selection of discount rates applied requires significant judgement.

For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a cash generating unit (CGU). ANZ New Zealand's CGUs are consistent with the operating segments described in Note 4, and the allocation of goodwill to each CGU as at 31 March 2020 is the same as at 30 September 2019. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. To estimate the recoverable amount of the CGU to which each goodwill component is allocated, we use a value-in-use approach.

Value-in-use

These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering an initial forecast period. These projections also incorporate economic assumptions including GDP, inflation, unemployment and residential and commercial property prices. 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.

Market observable information is not readily available at the CGU level therefore management performed stress tests for key sensitivities in each segment. Given the rapidly changing situation associated with COVID-19, a further specific stress scenario was applied as at 31 March 2020. This additional stress scenario decreased the recoverable amount of each CGU by an average of 23.5% compared to the 29 February 2020 annual impairment test, but did not cause the carrying amount of goodwill for any CGU to exceed its recoverable amount.

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

	29 February 2020 annual impairment test	31 March 2020 stress scenario
Forecast period and projections	Three years Projections based on a number of financial budgets within each segment approved by management.	Eight years - incorporating a two and a half year initial stress period followed by a three year recovery and a three year return to maintainable earnings. The periods of initial stress included allowances for increased credit impairment losses, based on stress scenarios used in ANZ New Zealand's Internal Capital Adequacy Assessment Process (ICAAP) and having regard to the economic forecasts used in the calculation of ECL as at 31 March 2020, and decreased revenue.
Terminal growth rate	2% - based on RBNZ long term inflation target.	2% - based on RBNZ long term inflation target
Discount rates	9.5% (2019: 11.1%). Pre-tax: 12.3% (2019: 14.7%). 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 based on a blended yield rate between the 10 year New Zealand government bond rate and the associated 5 year forward rate. Beta and the market risk premium were consistent with observable and comparative market rates applied in the regional banking sector.	7.1% for one year to 10.2% for the terminal cash flows. Pre-tax: 10.1% to 13.2%. The range of rates used was equivalent to using a flat rate of 10.0% (Pre-tax: 12.9%). Given RBNZ has stated that the Official Cash Rate will be held at 0.25% for at least one year, a range of rates applicable to the discounting period were used. These were calculated on the same basis as for the annual impairment test, using risk free rates applicable to the discount period, and an updated market risk premium.
Result	Carrying amount did not exceed the recoverable amount for any CGU.	Carrying amount did not exceed the recoverable amount for any CGU.
Sensitivity testing	Sensitivity analysis was performed on key assumptions in early March, and this did not cause the carrying amount of any CGU to exceed its recoverable amount.	Cashflow forecasts were flexed for changes in credit impairment charges. Credit impairment charges as a proportion of gross loans and advances were increased for the initial stress period to at least 30% above the ICAAP scenario applied, equivalent to at least 30% higher than the levels experienced over 2008 to 2011 (covering the period of the global financial crisis). Carrying amount did not exceed the recoverable amount for any CGU.
Conclusion	No impairment of goodwill for any CGU	No impairment of goodwill for any CGU

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Other intangible assets

Management judgement is used to assess the recoverable value of 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.

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

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

Changes in accounting policies

The accounting policies adopted by ANZ New Zealand are consistent with those adopted and disclosed in the previous full year financial statements, except as disclosed below.

The following new standard relevant to ANZ New Zealand has been adopted from 1 October 2019 and has been applied in the preparation of these financial statements:

NZ IFRS 16 *Leases* (NZ IFRS 16)

NZ IFRS 16 became effective for ANZ New Zealand from 1 October 2019 and replaced the previous standard NZ IAS 17 *Leases* (NZ IAS 17). NZ IFRS 16 primarily impacts ANZ New Zealand's property and technology leases which were previously classified as operating leases. Under NZ IAS 17, operating leases were not recognised on the balance sheet and rent payments were expensed over the lease term.

Under NZ IFRS 16, ANZ New Zealand recognises all leases (except for leases of low value assets and short term leases) on the balance sheet under a single accounting model. Accordingly, ANZ New Zealand recognises its right to use an underlying leased asset over the lease term, as a right-of-use (ROU) asset, and its obligation to make lease payments as a lease liability. In the income statement, ANZ New Zealand recognises depreciation expense on the ROU asset and interest expense on the lease liability. As a result, lease expenses will be higher in the early periods of a lease and lower in the later periods of the lease compared to the previous standard where expenses were constant over the lease term. Cumulative expenses over the life of a lease will not change.

As permitted by the standard, ANZ New Zealand does not recognise ROU assets and lease liabilities for leases of low value items and short term leases (less than 12 months). Instead, the lease payments associated with these leases are recognised as operating expense in the income statement on a straight-line basis over the lease term.

ANZ New Zealand has applied the modified retrospective transition approach whereby initial lease liabilities are recognised based on the present value of remaining lease payments as of the transition date. The initial ROU asset recognised for certain large commercial leases was measured as if NZ IFRS 16 had always been applied to the leases. For all other leases, the initial ROU asset was measured as equal to the initial lease liability plus any future make good obligations associated with exiting the lease.

The implementation of NZ IFRS 16 requires management to make certain key judgements including the determination of lease terms, discount rates and identifying arrangements that contain a lease.

Based on the modified retrospective transition approach, ANZ New Zealand recognised lease liabilities of $333 million presented within Payables and other liabilities and right-of-use assets of $309 million presented within Premises and equipment. This resulted in a reduction to opening retained earnings of $17 million and an increase in deferred tax assets of $7 million as of 1 October 2019. Comparatives have not been restated.

In addition, ANZ New Zealand elected to apply the following practical expedients as permitted under the modified retrospective transition approach:

- Impairment of ROU assets at the transition date were assessed by relying on onerous lease provisions previously recognised as of 30 September 2019 under NZ IAS 17;
- Initial direct costs associated with entering leases prior to the transition date were excluded from the carrying value of ROU assets recognised at transition;
- No ROU assets or lease liabilities were recognised for certain leases with less than 12 months remaining as of the transition date; these leases were treated as short-term leases with all lease payments recognised in rent expense as incurred; and
- Hindsight was used to determine the lease term of contracts that contained options to extend the lease.

The following table reconciles the operating lease commitments disclosed under NZ IAS 17 as at 30 September 2019 to the opening lease liabilities recognised under NZ IFRS 16 as at 1 October 2019.

	NZ$m
Operating lease commitments as at 30 September 2019	279
Increase in lease term for extension options	93
Total undiscounted lease payments	372
Effect of discounting at a weighted average incremental borrowing rate of 2.75%	(39)
Total lease liabilities under NZ IFRS 16	333

Interest Rate Benchmark Reform

Background

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (RFRs) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

Accounting amendments

In response to the uncertainty about the long-term viability of these benchmark rates, and LIBOR in particular, the International Accounting Standards Board (IASB) has established a project to consider the financial reporting implications of the reform. The transition from LIBOR is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, as well as fair value methodologies and disclosures.

In November 2019, the External Reporting Board (XRB) issued XRB amending standard *Interest Rate Benchmark Reform*, which amends certain existing hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interest rate benchmark reform. ANZ New Zealand elected to early adopt the amendments from 1 October 2019 which have not had a significant impact on ANZ New Zealand.

These amendments address the accounting effects of uncertainty in the period leading up to the reform arising from ANZ New Zealand's ability to satisfy the existing prospective hedge effectiveness requirements of NZ IAS 39 *Financial Instruments: Recognition and Measurement*. This uncertainty arises as it is not known when the hedged items (such as debt issuances) and associated hedging instruments (such as interest rate swaps) will be changed to reference the RFRs, or if both the hedging item and the associated hedging instrument will move to the new rates at the same time. ANZ New Zealand has applied this amendment to all hedge accounted relationships (cash flow or fair value hedges) where the reform gives rise to uncertainties about the timing or amount of IBOR based cash flows of the hedged item or hedging instrument.

The IASB has commenced working on Phase 2 of its IBOR Reform project, which focuses on potential issues that might affect financial reporting once the existing rate is replaced with an alternative rate. ANZ New Zealand is monitoring these developments and continues to assess the expected financial impact.

Impact of IBOR reform

ANZ New Zealand has exposure to IBOR through its issuance of debt, the structural interest rate risk position, products denominated in foreign currencies and associated hedging activities in our markets and treasury businesses within Institutional and Other segments respectively.

ANZ New Zealand has established a programme to manage the transition. The programme includes the assessment and actions necessary to accommodate the transition to RFRs as they apply to internal processes and systems including pricing, risk management, documentation and hedge arrangements. The programme includes management of the impact on customers.

Impact of IBOR reform on ANZ New Zealand's hedging relationships

The most significant interest rate benchmarks to which ANZ New Zealand's hedging relationships are exposed are US dollar LIBOR, Euro Interbank Offered Rate (Euribor), Bank Bill Swap Rate (BBSW) and Bank Bill Market (BKBM).

Of these benchmarks ANZ New Zealand expects BBSW, BKBM and Euribor to exist as benchmark rates for the foreseeable future and therefore does not believe its BBSW, BKBM or Euribor benchmark fair value or cash flow hedges to be directly impacted by IBOR reform.

The table below details the carrying values of ANZ New Zealand's exposures designated in hedge accounting relationships that will be impacted by IBOR reform, principally US dollar LIBOR. The nominal value of the associated hedging instruments are also included:

As at 31 March 2020	US dollar LIBOR NZ$m
Hedged items	
Deposits and other borrowings	1,142
Debt issuances	12,572

As at 31 March 2020	Notional designated up to 31 December 2021 NZ$m	Notional designated beyond 31 December 2021 NZ$m	Total notional amount NZ$m
Hedging Instruments			
Fair value hedges	5,393	7,715	13,108

As at 31 March 2020 ANZ New Zealand also has Swiss franc LIBOR exposures designated in hedge accounting relationships of NZ$1,080 million.

Comparatives

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

Principles of consolidation

The financial statements consolidate the financial statements of the NZ Branch and all of the New Zealand businesses of all the subsidiaries of the Ultimate Parent Bank.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

2. OTHER OPERATING INCOME

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
(i) Fee and commission revenue		
Lending fees	17	16
Non-lending fees	374	407
Commissions	21	23
Funds management income	133	127
Fee and commission income	545	573
Fee and commission expense	(260)	(241)
Net fee and commission income	285	332
(ii) Other income		
Net trading gains	69	73
Fair value gain / (loss) on hedging activities and financial liabilities designated at fair value	143	(140)
Net foreign exchange earnings and other financial instruments income	212	(67)
Sale of OnePath Life (NZ) Limited (OnePath)	-	59
Sale of investment in Paymark Limited (Paymark)	-	39
Other	10	10
Other income	222	41
Other operating income	507	373

3. OPERATING EXPENSES

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
Personnel		
Salaries and related costs	454	413
Superannuation costs	15	14
Other	24	10
Personnel	493	437
Premises		
Rent[1]	12	41
Other[2]	65	34
Premises	77	75
Technology		
Depreciation and amortisation	24	24
Licences and outsourced services	60	53
Other	22	24
Technology (excluding personnel)	106	101
Other		
Advertising and public relations	24	21
Professional fees	31	27
Freight, stationery, postage and communication	21	22
Charges from Ultimate Parent Bank	41	26
Other	43	36
Other	160	132
Operating expenses	836	745

1 Following the adoption of NZ IFRS 16 on 1 October 2019, with the exception of low value leases and leases of less than 12 months, expenses associated with operating leases are shown as depreciation of the right-of-use asset and interest expense associated with the lease liability (comparatives are not restated).

2 Includes depreciation and amortisation on right-of-use assets which ANZ New Zealand commenced recognising on the adoption of NZ IFRS 16 (comparatives not restated).

4. SEGMENT REPORTING

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

Retail

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

Commercial

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

Institutional

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

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

Other

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

	Retail		Commercial		Institutional		Other		Total	
For the six months ended 31 March	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Net interest income	922	940	549	517	176	169	1	-	1,648	1,626
Net fee and commission income										
- Lending fees	8	8	-	-	9	8	-	-	17	16
- Non-lending fees	343	368	5	9	26	30	-	-	374	407
- Commissions	21	23	-	-	-	-	-	-	21	23
- Funds management fees	133	127	-	-	-	-	-	-	133	127
- Fee and commission expense	(260)	(241)	-	-	-	-	-	-	(260)	(241)
Net fee and commission income	245	285	5	9	35	38	-	-	285	332
Other income	9	5	1	1	46	75	166	(40)	222	41
Net income from insurance business	-	19	-	-	-	-	-	8	-	27
Share of associates' profits	-	4	-	-	-	-	-	-	-	4
Other operating income	254	313	6	10	81	113	166	(32)	507	404
Operating income	1,176	1,253	555	527	257	282	167	(32)	2,155	2,030
Operating expenses	(574)	(514)	(147)	(128)	(96)	(86)	(19)	(17)	(836)	(745)
Profit before credit impairment and income tax	602	739	408	399	161	196	148	(49)	1,319	1,285
Credit impairment charge	(82)	(29)	(106)	(2)	(44)	(1)	-	-	(232)	(32)
Profit before income tax	520	710	302	397	117	195	148	(49)	1,087	1,253
Income tax expense	(146)	(200)	(85)	(111)	(33)	(55)	(34)	42	(298)	(324)
Profit after income tax	374	510	217	286	84	140	114	(7)	789	929

NOTES TO THE INTERIM FINANCIAL STATEMENTS

	Retail		Commercial		Institutional		Other		Total	
	31 Mar 20	30 Sep 19	31 Mar 20	30 Sep 19	31 Mar 20	30 Sep 19	31 Mar 20	30 Sep 19	31 Mar 20	30 Sep 19
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	**1,039**	1,039	**1,052**	1,052	**1,069**	1,069	**-**	-	**3,160**	3,160
Net loans and advances	**85,001**	82,527	**43,559**	43,464	**7,110**	7,270	**9**	3	**135,679**	133,264
Customer deposits	**76,408**	73,866	**17,218**	16,138	**19,785**	19,232	**-**	-	**113,411**	109,236

Other segment

The Other segment profit after income tax comprises:

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
Central functions	**3**	-
Technology and Group Centre[1, 2]	**(1)**	178
Economic hedges	**112**	(104)
Revaluation of insurance policies from changes in interest rates[2]	**-**	(81)
Total	**114**	(7)

1 Technology and Group Centre's other income for the six months ended 31 March 2019 includes the NZ$59 million gain on sale of OnePath and the NZ$39 million gain on sale of Paymark (Note 2 Other Operating Income).

2 Amounts for the six months ended 31 March 2019 include the transfer of NZ$86 million of accumulated after tax gains previously recognised in revaluation of insurance policies from changes in interest rates to Technology and Group Centre. These gains were transferred upon the sale of OnePath.

5. CASH AND CASH EQUIVALENTS

	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Coins, notes and bank deposits	**755**	538
Securities purchased under agreements to resell in less than 3 months	**557**	297
Balances with central banks[1]	**6,052**	1,448
Settlement balances receivable within 3 months	**382**	426
Cash and cash equivalents	**7,746**	2,709

1 From 20 March 2020, RBNZ removed allocated credit tiers for Exchange and Settlement Account System (ESAS) holders, with all ESAS credit balances earning interest at the Official Cash Rate (OCR).

6. NET LOANS AND ADVANCES

	Note	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Overdrafts		**816**	927
Credit cards		**1,426**	1,569
Term loans - housing		**87,594**	84,748
Term loans - non-housing		**44,539**	44,586
Finance lease and hire purchase receivables		**1,844**	1,863
Subtotal		**136,219**	133,693
Unearned income		**(221)**	(237)
Capitalised brokerage/mortgage origination fees		**326**	307
Gross loans and advances		**136,324**	133,763
Allowance for ECL	7	**(645)**	(499)
Net loans and advances		**135,679**	133,264

7. ALLOWANCE FOR EXPECTED CREDIT LOSSES

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

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

Net loans and advances - at amortised cost

Allowance for ECL is included in net loans and advances.

			Stage 3		
	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	164	194	43	98	499
Transfer between stages	22	(25)	3	-	-
New and increased provisions (net of collective provision releases)	20	122	16	72	230
Write-backs	-	-	-	(15)	(15)
Recoveries of amounts previously written off	-	-	-	(14)	(14)
Credit impairment charge	42	97	19	43	201
Bad debts written-off (excluding recoveries)	-	-	-	(64)	(64)
Add back recoveries of amounts previously written off	-	-	-	14	14
Discount unwind	-	-	-	(5)	(5)
As at 31 March 2020	206	291	62	86	645

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

Allowance for ECL is included in other provisions

As at 1 October 2019	60	24	2	11	97
Transfer between stages	4	(4)	-	-	-
New and increased provisions (net of releases)	17	13	-	1	31
Credit impairment charge	21	9	-	1	31
As at 31 March 2020	81	33	2	12	128

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
New and increased provisions		
- Collectively assessed	188	-
- Individually assessed	73	64
Write-backs	(15)	(21)
Recoveries of amounts previously written-off	(14)	(11)
Total credit impairment charge	232	32

NOTES TO THE INTERIM FINANCIAL STATEMENTS

8. DEPOSITS AND OTHER BORROWINGS

	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Term deposits	51,769	54,984
On demand and short term deposits	47,215	42,329
Deposits not bearing interest	14,427	11,795
UDC secured investments	-	128
Total customer deposits	113,411	109,236
Certificates of deposit	1,695	1,484
Deposits from banks and securities sold under repurchase agreements	1,461	203
Commercial paper	4,456	2,461
Borrowings from Ultimate Parent Bank and Immediate Parent Company	3,068	3,687
Deposits and other borrowings	124,091	117,071

9. OTHER PROVISIONS

	Note	31 Mar 20 NZ$m	30 Sep 19 NZ$m
ECL allowance on undrawn facilities	7	128	97
Customer remediation		124	139
Restructuring costs		27	25
Leasehold make good		23	23
Other[1]		27	30
Total other provisions		329	314

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

	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Senior debt	21,812	19,307
Covered bonds	4,630	4,460
Total unsubordinated debt	26,442	23,767
Subordinated debt		
- ANZ Capital Notes	1,491	1,540
- Other	272	286
Total subordinated debt	1,763	1,826
Total debt issued	28,205	25,593

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 and ECL included in Note 1.

Maximum exposure to credit risk

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

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

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 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m
On-balance sheet positions						
Net loans and advances	**135,679**	133,264	**-**	-	**135,679**	133,264
Other financial assets:						
Cash and cash equivalents	**7,746**	2,709	**355**	192	**7,391**	2,517
Settlement balances receivable	**404**	193	**-**	-	**404**	193
Collateral paid	**2,527**	2,324	**-**	-	**2,527**	2,324
Trading securities	**11,679**	8,942	**-**	-	**11,679**	8,942
Derivative financial instruments	**13,246**	11,653	**-**	-	**13,246**	11,653
Investment securities	**7,293**	7,027	**-**	-	**7,293**	7,027
Other financial assets[2]	**586**	623	**-**	-	**586**	623
Total other financial assets	**43,481**	33,471	**355**	192	**43,126**	33,279
Subtotal	**179,160**	166,735	**355**	192	**178,805**	166,543
Off-balance sheet commitments						
Undrawn and contingent facilities[3]	**29,769**	29,003	**-**	-	**29,769**	29,003
Total	**208,929**	195,738	**355**	192	**208,574**	195,546

1 Excluded comprises bank notes and coins and cash at bank within cash and cash equivalents.
2 Other financial assets mainly comprise accrued interest, insurance receivables and acceptances.
3 Undrawn facilities and contingent facilities include guarantees, letters of credit and performance related contingencies, net of allowance for ECL.

Credit quality

We use ANZ New Zealand's internal customer credit rating (CCR) to manage the credit quality of financial assets. To enable wider comparisons, ANZ New Zealand's CCRs are mapped to external rating agency scales as follows:

Credit quality description	Internal CCR	ANZ New Zealand 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

			Stage 3		
	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
As at 31 March 2020	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Strong	100,877	2,250	-	-	103,127
Satisfactory	24,539	4,571	-	-	29,110
Weak	583	2,543	-	-	3,126
Defaulted	-	-	579	277	856
Subtotal	125,999	9,364	579	277	136,219
Allowance for ECL	(206)	(291)	(62)	(86)	(645)
Net loans and advances at amortised cost	125,793	9,073	517	191	135,574
Coverage ratio	0.16%	3.11%	10.71%	31.05%	0.47%
Unearned income					(221)
Capitalised brokerage/mortgage origination fees					326
Net carrying amount					135,679
As at 30 September 2019					
Strong	96,212	2,291	-	-	98,503
Satisfactory	26,468	4,629	-	-	31,097
Weak	1,229	2,125	-	-	3,354
Defaulted	-	-	452	287	739
Subtotal	123,909	9,045	452	287	133,693
Allowance for ECL	(164)	(194)	(43)	(98)	(499)
Net loans and advances at amortised cost	123,745	8,851	409	189	133,194
Coverage ratio	0.13%	2.14%	9.51%	34.15%	0.37%
Unearned income					(237)
Capitalised brokerage/mortgage origination fees					307
Net carrying amount					133,264

Off-balance sheet commitments - undrawn and contingent facilities

			Stage 3		
	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
As at 31 March 2020	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Strong	24,769	131	-	-	24,900
Satisfactory	4,196	594	-	-	4,790
Weak	20	160	-	-	180
Defaulted	-	-	4	23	27
Gross undrawn and contingent facilities	28,985	885	4	23	29,897
Allowance for ECL included in Other provisions (refer to Note 9)	(81)	(33)	(2)	(12)	(128)
Net undrawn and contingent facilities	28,904	852	2	11	29,769
Coverage ratio	0.28%	3.73%	50.00%	52.17%	0.43%
As at 30 September 2019					
Strong	23,046	59	-	-	23,105
Satisfactory	4,883	641	-	-	5,524
Weak	312	137	-	-	449
Defaulted	-	-	3	19	22
Gross undrawn and contingent facilities	28,241	837	3	19	29,100
Allowance for ECL included in Other provisions (refer to Note 9)	(60)	(24)	(2)	(11)	(97)
Net undrawn and contingent facilities	28,181	813	1	8	29,003
Coverage ratio	0.21%	2.87%	66.67%	57.89%	0.33%

12. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

ANZ New Zealand 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 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 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Assets								
Trading securities	9,265	8,319	2,414	623	-	-	11,679	8,942
Derivative financial instruments	28	10	13,215	11,640	3	3	13,246	11,653
Investment securities	7,292	7,026	-	-	1	1	7,293	7,027
Total	16,585	15,355	15,629	12,263	4	4	32,218	27,622
Liabilities								
Deposits and other borrowings	-	-	4,456	2,461	-	-	4,456	2,461
Derivative financial instruments	11	11	12,494	10,901	-	-	12,505	10,912
Other financial liabilities	154	213	-	-	-	-	154	213
Total	165	224	16,950	13,362	-	-	17,115	13,586

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 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Financial assets				
Net loans and advances[1]	135,679	133,264	136,486	133,827
Total	135,679	133,264	136,486	133,827
Financial liabilities				
Deposits and other borrowings[2]	119,635	114,610	119,738	114,840
Debt issuances[1]	28,205	25,593	27,563	25,861
Total	147,840	140,203	147,301	140,701

[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 7 Deposits and Other Borrowings) designated at fair value through profit or loss.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments and contingencies	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Contract amount of:		
Undrawn facilities	**27,149**	26,350
Guarantees and letters of credit	**1,232**	1,248
Performance related contingencies	**1,516**	1,502
Total	**29,897**	29,100

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

Regulatory and customer exposures

In recent years there have 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 globally. There has also been an increase in the number of matters on which ANZ New Zealand engages with its regulators. ANZ New Zealand has received various notices and requests for information from its regulators as part of both industry-wide and ANZ New Zealand-specific reviews, and has also made disclosures to its regulators at its own instigation. 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.

Commerce Commission settlement

Between June 2015 and May 2016, the Bank had an issue with a loan calculator which meant some interest to be charged to customers was left out when calculating their repayments or loan term. On 2 March 2020, The Commerce Commission announced it had agreed with the Bank that the Bank would pay some customers affected by the issue a further NZ$29.4 million, in addition to the NZ$8.4 million the Bank has paid previously. All amounts in relation to this matter were provided for in the period to 30 September 2019.

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) and the second on the effectiveness of the Bank's directors' attestation and assurance framework.

- The director attestation and assurance framework review was completed in December 2019, and the Bank is committed to implementing the recommendations identified and addressing the issues raised. On 11 December 2019 RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework.
- The report regarding the Bank's compliance with the RBNZ's capital adequacy requirements was completed in April 2020. This report identified instances of both current and historical non-compliance with capital adequacy requirements. The Bank has accepted the findings of this review, and is working with the RBNZ to rectify the issues identified. 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.

The Section 95 reviews have highlighted the need for a broader programme of improving the Bank's processes covered by those reviews, and this programme is underway.

Warranties and indemnities

ANZ New Zealand 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 2 April 2020, RBNZ announced that locally incorporated banks, including the Bank, cannot pay dividends on ordinary shares and should not redeem capital notes at this time. Accordingly, the Bank was not permitted to, and did not, redeem NZ$500 million of mandatory convertible perpetual subordinated securities (ANZ NZ CN) on 25 May 2020 (the Optional Exchange Date). Further, the Bank did not exercise its option to convert ANZ NZ CN into ordinary shares of the Ultimate Parent Bank on the Optional Exchange Date.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES

Guarantees

No material obligations of the NZ Branch are guaranteed as at 26 May 2020.

Covered bonds issued by ANZ New Zealand (Int'l) Limited, a subsidiary of the Bank, are guaranteed. Refer to page 18 for further details.

Changes in the Ultimate Parent Bank's Board of Directors

Paul O'Sullivan was appointed as an Independent Non-Executive Director of the Ultimate Parent Bank on 4 November 2019. There have been no other changes to the Directors of the Ultimate Parent Bank since 30 September 2019, the balance date of the last full year disclosure statement.

Auditors

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

Credit rating

As at 26 May 2020 the Ultimate Parent Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars.

The Ultimate Parent Bank's credit ratings are:

Rating agency	Credit rating	Qualification
S&P Global Ratings	AA-	Outlook Negative
Fitch Ratings	A+	Outlook Negative
Moody's Investors Service	Aa3	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 has delayed the start date for the increased capital requirements by 12 months to support credit availability, with further delays possible if the conditions warrant it in 2021. The new regime is currently expected to be implemented in stages from 1 July 2021, with a transition period of seven years before banks are required to fully comply with the new rules.

- 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% can be made up of additional tier 1 (AT1) capital, with the remaining 13.5% made up of common equity tier 1 (CET1) capital. AT1 capital must consist of redeemable perpetual preference shares. 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% prudential 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% conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at 31 March 2020, the Bank had approximately NZ$2,741 million of AT1 instruments that will progressively lose their eligible regulatory capital treatment over a seven year transition period.
- As an internal ratings based (IRB)-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, and increasing the credit RWA scalar from 1.06 to 1.2.
- The Banking Group will be required to report RWA, and resulting capital ratios, using both internal models and the standardised approach.

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.

The Banking Group has started preparing for the changes. Of the Banking Group's NZ$1.8 billion net profit after tax in for the year ended 30 September 2019, approximately 80% was retained in response to the proposals and no ordinary dividends were paid during the six months ended 31 March 2020.

Directors' and New Zealand Chief Executive Officer's statements

The Directors' and New Zealand Chief Executive Officer's statement is included on page 33.

Financial statements of the Ultimate Parent Bank and Overseas Banking Group

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

Auditor's review report

The auditor's review report is included on page 34.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

As at 31 March 2020	NZ$m
Total interest earning and discount bearing assets	165,085
Total interest and discount bearing liabilities	140,380
Total amounts due from related entities	5,003
Total amounts due to related entities	8,388
Total liabilities of the NZ Branch less amounts due to related entities	1,005

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 2020	NZ$m
Securities sold under agreements to repurchase	1,161
Residential mortgages pledged as security for covered bonds	12,063

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. ANZ New Zealand 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, all other items of other income (all in Note 2 Other Operating Income), net income from insurance business and share of associates' profit (both shown on the income statement).

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 2020	Loans and advances[3] NZ$m	Other financial assets NZ$m	Off-balance sheet credit related commitments[4] NZ$m	Total NZ$m
New Zealand residents				
Agriculture	17,449	79	1,024	18,552
Forestry and fishing, agriculture services	1,188	10	173	1,371
Manufacturing	2,802	454	2,122	5,378
Electricity, gas, water and waste services	1,246	538	1,764	3,548
Construction	1,710	30	929	2,669
Wholesale trade	1,536	199	1,585	3,320
Retail trade and accommodation	2,884	27	846	3,757
Transport, postal and warehousing	1,453	175	735	2,363
Finance and insurance services	565	12,455	1,458	14,478
Public administration and safety[1]	338	12,377	1,122	13,837
Rental, hiring & real estate services	35,098	1,325	2,224	38,647
Professional, scientific, technical, administrative and support services	1,063	11	475	1,549
Households	64,399	189	14,133	78,721
All other New Zealand residents[2]	2,536	258	1,201	3,995
Subtotal	134,267	28,127	29,791	192,185
Overseas				
Finance and insurance services	77	14,919	106	15,102
Households	1,197	4	-	1,201
All other non-NZ residents	678	76	-	754
Subtotal	1,952	14,999	106	17,057
Gross subtotal	136,219	43,126	29,897	209,242
Allowance for ECL	(645)	-	(128)	(773)
Subtotal	135,574	43,126	29,769	208,469
Unearned income	(221)	-	-	(221)
Capitalised brokerage / mortgage origination fees	326	-	-	326
Maximum exposure to credit risk	135,679	43,126	29,769	208,574

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

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 2020	Note	NZ$m
Funding composition		
Customer deposits	8	113,411
Wholesale funding		
Debt issuances		28,205
Certificates of deposit and commercial paper		6,151
Other borrowings		4,529
Total wholesale funding		38,885
Total funding		152,296
Customer deposits by industry - New Zealand residents		
Agriculture, forestry and fishing		3,990
Manufacturing		2,318
Construction		2,563
Wholesale trade		2,081
Retail trade and accommodation		2,053
Financial and insurance services		11,959
Rental, hiring and real estate services		3,637
Professional, scientific, technical, administrative and support services		5,806
Public administration and safety		1,441
Arts, recreation and other services		2,074
Households		60,917
All other New Zealand residents[1]		4,426
		103,265
Customer deposits by industry - overseas		
Households		9,508
All other		638
		10,146
Total customer deposits		113,411
Wholesale funding (financial and insurance services industry)		
New Zealand		6,756
Overseas		32,129
Total wholesale funding		38,885
Total funding		152,296
Concentrations of funding by geography		
New Zealand		110,021
Australia		4,021
United States		18,603
Europe		12,294
Other countries		7,357
Total funding		152,296

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

As at 31 March 2020	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	7,746	7,358	-	-	-	-	388
Settlement balances receivable	404	-	-	-	-	-	404
Collateral paid	2,527	2,527	-	-	-	-	-
Trading securities	11,679	2,255	870	505	1,652	6,397	-
Derivative financial instruments	13,246	-	-	-	-	-	13,246
Investment securities	7,293	294	-	298	1,737	4,963	1
Net loans and advances	135,679	63,274	12,385	21,722	30,947	7,901	(550)
Other financial assets	586	-	-	-	-	-	586
Total financial assets	179,160	75,708	13,255	22,525	34,336	19,261	14,075
Liabilities							
Settlement balances payable	2,215	743	-	-	-	-	1,472
Collateral received	1,290	1,290	-	-	-	-	-
Deposits and other borrowings	124,091	78,384	15,420	10,011	2,726	3,123	14,427
Derivative financial instruments	12,505	-	-	-	-	-	12,505
Debt issuances	28,205	3,179	3,972	1,984	5,987	13,083	-
Other financial liabilities	948	167	12	23	56	220	470
Total financial liabilities	169,254	83,763	19,404	12,018	8,769	16,426	28,874
Hedging instruments	-	13,814	770	(9,850)	(14,934)	10,200	-
Interest sensitivity gap	9,906	5,759	(5,379)	657	10,633	13,035	(14,799)

1 Excludes non-coupon bearing discounted 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 2020 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which ANZ New Zealand may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

As at 31 March 2020	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	1,325	900	-	-	-	2,225
Collateral received	-	1,290	-	-	-	1,290
Deposits and other borrowings	61,643	28,282	28,858	5,922	1,183	125,888
Derivative financial liabilities (trading)	-	10,772	-	-	-	10,772
Debt issuances[1]	-	378	5,859	18,355	4,639	29,231
Other financial liabilities	-	54	5	107	58	224
Derivative financial instruments (balance sheet management)						
- gross inflows	-	749	1,628	8,656	884	11,917
- gross outflows	-	(842)	(1,889)	(9,047)	(885)	(12,663)

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

At 31 March 2020, NZ$51 million of ANZ New Zealand's NZ$124 million of non-credit related commitments and all NZ$29,897 million of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which ANZ New Zealand may be required to pay.

Liquidity portfolio

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

As at 31 March 2020	NZ$m
Coins, notes and bank deposits	755
Balances with central banks	6,052
Settlement balances receivable within 3 months	170
Certificates of deposit	547
Government, local body stock and bonds	9,186
Government treasury bills	469
Reserve Bank bills	400
Other bonds	7,152
Total liquidity portfolio	24,731

The Bank also held unencumbered internal residential mortgage backed securities which would entitle ANZ New Zealand to enter into repurchase transactions with a value of NZ$7,087 million at 31 March 2020.

Reconciliation of mortgage related amounts

As at 31 March 2020	Note	NZ$m
Term loans - housing[1]	6	87,594
Less: fair value hedging adjustment		(9)
Less: housing loans made to corporate customers		(2,062)
On-balance sheet residential mortgage exposures (per LVR analysis)	B4	85,523
Add: off-balance sheet residential mortgage exposures (per LVR analysis)	B4	8,527
Total residential mortgage exposures as per LVR analysis	B4	94,050

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

Overseas Banking Group Profitability and Size

	31 Mar 20
Net Profit for the six months ended 31 March 2020 (AUDm)[1]	1,546
Net profit after tax for the 12 months ended 31 March 2020 as a percentage of average total assets	0.43%
Total assets (AUDm)	1,149,955
Percentage change in total assets in the 12 months to 31 March 2020	17.31%

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

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, and Note 7 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 2019	164	194	43	98	499
Transfer between stages	22	(25)	3	-	-
New and increased provisions (net of collective provision releases)	20	122	16	72	230
Write-backs	-	-	-	(15)	(15)
Recoveries of amounts previously written off	-	-	-	(14)	(14)
Credit impairment charge	42	97	19	43	201
Bad debts written-off (excluding recoveries)	-	-	-	(64)	(64)
Add back recoveries of amounts previously written off	-	-	-	14	14
Discount unwind	-	-	-	(5)	(5)
As at 31 March 2020	206	291	62	86	645
Off-balance sheet credit related commitments - total					
As at 1 October 2019	60	24	2	11	97
Transfer between stages	4	(4)	-	-	-
New and increased provisions (net of collective provision releases)	17	13	-	1	31
Credit impairment charge	21	9	-	1	31
As at 31 March 2020	81	33	2	12	128

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

Gross loans and advances - total	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
As at 1 October 2019	123,979	9,045	452	287	133,763
Net transfers in to each stage	-	713	192	36	941
Amounts drawn from new or existing facilities	19,434	772	36	106	20,348
Additions	19,434	1,485	228	142	21,289
Net transfers out of each stage	(940)	-	(1)	-	(941)
Amounts repaid	(16,474)	(1,166)	(100)	(88)	(17,828)
Deletions	(17,414)	(1,166)	(101)	(88)	(18,769)
Amounts written off	-	-	-	(64)	(64)
As at 31 March 2020	125,999	9,364	579	277	136,219
Loss allowance as at 31 March 2020	206	291	62	86	645
Off-balance sheet credit related commitments - total					
As at 1 October 2019	28,241	837	3	19	29,100
Transfers in to each stage	-	81	4	2	87
Amounts drawn from new or existing facilities	5,149	122	1	17	5,289
Additions	5,149	203	5	19	5,376
Transfers out of each stage	(87)	-	-	-	(87)
Amounts repaid	(4,318)	(155)	(4)	(15)	(4,492)
Deletions	(4,405)	(155)	(4)	(15)	(4,579)
Amounts written off	-	-	-	-	-
As at 31 March 2020	28,985	885	4	23	29,897
Loss allowance as at 31 March 2020	81	33	2	12	128

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

Overall, loss allowances are 0.5% of gross balances as at 31 March 2020, up from 0.4% as at 30 September 2019. While gross balances have increased, and there has been a small increase in the proportion of gross balances in Stage 2 and Stage 3, the NZ$177 million (29.7%) increase in loss allowances is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings as described in Note 1 to the financial statements.

Past due assets and other asset quality information

As at 31 March 2020	Total NZ$m
Past due assets	
Less than 30 days past due	1,315
At least 30 days but less than 60 days past due	359
At least 60 days but less than 90 days past due	190
At least 90 days past due	386
Total past due but not individually impaired	2,250
Other asset quality information	
Undrawn facilities with impaired customers	23
Other assets under administration	4

ANZ New Zealand does not have any loans and advances designated at fair value.

Overseas Banking Group asset quality

As at 31 March 2020	
Gross impaired assets (AUDm)	2,599
Gross impaired assets as a percentage of total assets	0.2%
Individual provision (AUDm)	1,093
Individual provision as a percentage of gross impaired assets	42.1%
Collective provision (AUDm)	4,501

B4. CREDIT AND MARKET RISK EXPOSURES AND CAPITAL ADEQUACY

APRA Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
As at 31 March	2020	2019	2020	2019
Common equity tier 1 capital	10.8%	11.5%	10.6%	11.2%
Tier 1 capital	12.5%	13.4%	12.6%	13.2%
Total capital	15.5%	15.3%	15.8%	15.3%

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 2020 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 31 March 2020. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 31 March 2020, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Market risk

The aggregate market risk exposures below have been calculated in accordance with the RBNZ Banking Supervision Handbook document *Capital Adequacy Framework (Standardised Approach)* BS2A. The peak end-of-day market risk exposures are for the six months ended 31 March 2020.

	Implied risk weighted exposure		Notional capital charge	
	Period end	Peak	Period end	Peak
As at 31 March 2020	NZ$m	NZ$m	NZ$m	NZ$m
Interest rate risk	4,952	6,737	396	539
Foreign currency risk	38	110	3	9
Equity risk	1	1	-	-

Additional mortgage information

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

As at 31 March 2020	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	42,382	5,894	48,276
Exceeds 60% and not 70%	19,363	1,355	20,718
Exceeds 70% and not 80%	18,858	951	19,809
Does not exceed 80%	80,603	8,200	88,803
Exceeds 80% and not 90%	3,699	145	3,844
Exceeds 90%	1,221	182	1,403
Total	85,523	8,527	94,050

B5. INSURANCE BUSINESS

As at 31 March 2020, ANZ New Zealand does not conduct any insurance business.

DIRECTORS' AND NEW ZEALAND CHIEF EXECUTIVE OFFICER'S STATEMENT

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

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

Over the six months ended 31 March 2020, after due enquiry, each Director of the Ultimate Parent Bank and the Chief Executive Officer – NZ Branch believes that:

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

Signed by the Chief Executive Officer – NZ Branch

Penny Dell
Chief Executive Officer – NZ Branch
26 May 2020

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

Antonia Watson
Responsible Person
26 May 2020

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

INDEPENDENT AUDITOR'S REVIEW REPORT

KPMG

TO THE DIRECTORS OF AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

REPORT ON THE HALF YEAR DISCLOSURE STATEMENT

CONCLUSION

Based on our review of the interim financial statements and registered bank disclosures (together referred to as 'the disclosure statement') of the New Zealand business of Australia and New Zealand Banking Group Limited and its subsidiaries (ANZ New Zealand) on pages 3 to 32, nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 3 to 23 do not present fairly in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, in all material respects, ANZ New Zealand's financial position as at 31 March 2020 and its financial performance and cash flows for the six month period ended on that date;
- the registered bank disclosures in sections B2, B3 and B5 disclosed in accordance with Schedules 5, 7, 12 and 14 of the Registered Bank Disclosure Statements (Overseas 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; and
- the registered bank disclosures relating to credit and market risk exposures and capital adequacy in section B4 are not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

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 2020;
  - 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, 9, 12 and 14 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 ANZ New Zealand, 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 ANZ New Zealand 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 ANZ New Zealand on normal terms within the ordinary course of trading activities of the business of ANZ New Zealand. These matters have not impaired our independence as reviewer of ANZ New Zealand. The firm has no other relationship with, or interest in, ANZ New Zealand.

EMPHASIS OF MATTER – ESTIMATION UNCERTAINTY IN THE PREPARATION OF THE INTERIM FINANCIAL STATEMENTS

We draw attention to Note 1 *Use of estimates, assumptions and judgements* in the interim financial statements, which describes increased estimation uncertainty in the preparation of the interim financial statements, specifically as it relates to the potential impacts of Coronavirus (COVID-19) pandemic on ANZ New Zealand's allowance for credit losses (ECL) and annual goodwill impairment testing. These disclosures include:

- key judgements and assumptions in relation to the ECL model inputs and the interdependencies between those inputs, and highlight significant changes made during the six months ended 31 March 2020; and
- key changes made in the goodwill impairment test to reflect a further specific stress scenario associated with COVID-19.

As described in Note 1 *Use of estimates, assumptions and judgements* the underlying forecasts and assumptions are subject to uncertainties which are often outside the control of ANZ New Zealand. 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 the resulting accounting estimates.

In our view, this issue is fundamental to the users' understanding of the interim financial statements and the financial position and performance of ANZ New Zealand.

Our conclusion on the interim financial statements and registered bank disclosures is not modified in respect of this matter.

USE OF THE INDEPENDENT REVIEW REPORT

This independent review report is made solely to the Directors as a body of ANZ New Zealand. Our review work has been undertaken so that we might state to the Directors 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 Directors as a body for our work, this independent review report, or any of the opinions we have formed.

DIRECTORS' RESPONSIBILITIES FOR THE HALF YEAR DISCLOSURE STATEMENT

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

- the preparation and fair presentation of the half year disclosure statement in accordance with IAS 34, NZ IAS 34 and Schedules 3, 5, 7, 12 and 14 of the Order;
- the preparation and fair presentation of ANZ New Zealand's disclosures in regards to credit and market risk exposures and capital adequacy in accordance with Schedule 9 of the Order;
- implementing necessary internal controls to enable the preparation of a half year disclosure statement that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE HALF YEAR DISCLOSURE STATEMENT

Our responsibility is to express a conclusion on the half year disclosure statement 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, ANZ New Zealand's financial position as at 31 March 2020 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;
- the registered bank disclosures in sections B2, B3, and B5 do not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 12 and 14 of the Order; and
- the registered bank disclosures relating to credit and market risk exposures and capital adequacy in section B4 is not, in all material respects, disclosed in accordance with Schedule 9 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 half year disclosure statement. This description forms part of our independent review report.

KPMG

KPMG
Auckland

26 May 2020

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