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

FOR THE YEAR ENDED 30 SEPTEMBER 2018
NUMBER 90 | ISSUED NOVEMBER 2018

CONTENTS

ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2018

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

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2018 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
15 November 2018

David Hisco
Executive Director
15 November 2018

GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

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

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

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

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

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

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

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

OnePath means OnePath Life (NZ) Limited.

UDC means UDC Finance Limited.

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

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

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

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

FINANCIAL STATEMENTS

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

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2018 NZ$m	2017 NZ$m
Interest income		6,390	6,198
Interest expense		(3,240)	(3,161)
Net interest income	2	3,150	3,037
Other operating income	2	716	604
Net funds management and insurance income	2	405	329
Share of associates' profit	2	5	5
Operating income		4,276	3,975
Operating expenses	3	(1,517)	(1,468)
Profit before credit impairment and income tax		2,759	2,507
Credit impairment charge	12	(55)	(62)
Profit before income tax		2,704	2,445
Income tax expense	4	(751)	(680)
Profit for the year		1,953	1,765

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Profit for the year	1,953	1,765
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	1	15
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(27)	(32)
Realised losses transferred to the income statement	5	12
Income tax attributable to the above items	7	6
Other comprehensive income after tax	(14)	1
Total comprehensive income for the year	1,939	1,766

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

BALANCE SHEET

As at 30 September	Note	2018 NZ$m	2017 NZ$m
Assets			
Cash and cash equivalents	7	2,200	2,338
Settlement balances owed to the Banking Group		656	536
Collateral paid		1,919	1,415
Trading securities	8	8,024	7,663
Derivative financial instruments	9	8,086	9,878
Available-for-sale assets	10	6,502	6,360
Net loans and advances	11	126,466	117,627
Assets held for sale	25	897	3,065
Life insurance contract assets		-	636
Investments in associates		6	7
Goodwill and other intangible assets	19	3,289	3,275
Investments backing insurance contract liabilities		-	123
Premises and equipment		325	367
Other assets		642	683
Total assets		159,012	153,973
Liabilities			
Settlement balances owed by the Banking Group		2,161	1,840
Collateral received		845	613
Deposits and other borrowings	13	108,008	101,657
Derivative financial instruments	9	8,095	9,826
Current tax liabilities		161	39
Deferred tax liabilities		21	187
Liabilities held for sale	25	334	1,088
Payables and other liabilities		947	1,151
Employee entitlements		120	119
Other provisions		76	66
Debt issuances	14	25,135	24,606
Total liabilities		145,903	141,192
Net assets		13,109	12,781
Equity			
Share capital	20	11,888	8,888
Reserves		33	48
Retained earnings		1,188	3,845
Total equity		13,109	12,781

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
15 November 2018

David Hisco
Executive Director
15 November 2018

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FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	2018 NZ$m	2017 NZ$m
Profit after income tax	1,953	1,765
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Depreciation and amortisation	88	80
Loss on sale of premises and equipment	4	2
Impairment of goodwill	-	3
Net derivatives/foreign exchange adjustment	1,150	(662)
Other non-cash movements	(22)	88
Net (increase)/decrease in operating assets:		
Collateral paid	(504)	895
Trading securities	(361)	4,316
Net loans and advances	(5,927)	(5,916)
Other assets	(266)	(27)
Net increase in operating liabilities:		
Deposits and other borrowings	5,312	3,630
Settlement balances owed by the Banking Group	390	4
Collateral received	232	84
Other liabilities	48	120
Total adjustments	144	2,617
Net cash flows provided by operating activities[1]	2,097	4,382
Cash flows from investing activities		
Available-for-sale assets:[2]		
Purchases	(4,368)	(10,803)
Proceeds from sale or maturity	4,246	7,266
Other assets	3	(49)
Net cash flows used in investing activities	(119)	(3,586)
Cash flows from financing activities		
Debt issuances[3]		
Issue proceeds	3,385	4,922
Redemptions	(3,991)	(3,899)
Proceeds from issue of ordinary shares	3,000	-
Dividends paid	(4,611)	(1,695)
Net cash flows used in financing activities	(2,217)	(672)
Net increase / (decrease) in cash and cash equivalents	(239)	124
Cash and cash equivalents at beginning of year	2,439	2,315
Cash and cash equivalents at end of year	2,200	2,439

1 Net cash provided by operating activities includes income taxes paid of NZ$619 million (2017: NZ$605 million).

2 We have reassessed the composition of operating, investing and financing cash flows. Cash flows from available-for-sale assets were previously included in operating activities, and comparative amounts have been reclassified.

3 Movement in debt issuances (Note 14) also includes an NZ$1,365 million increase (2017: NZ$510 million increase) from the effect of foreign exchange rates, a NZ$246 million decrease (2017: NZ$247 million decrease) from changes in fair value hedging instruments and a NZ$16 million increase (2017: NZ$24 million increase) of other changes.

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

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Available-for-sale revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2016		8,888	-	62	3,760	12,710
Profit or loss		-	-	-	1,765	1,765
Unrealised gains / (losses) recognised directly in equity		-	7	(39)	-	(32)
Realised losses transferred to the income statement		-	-	12	-	12
Actuarial gain on defined benefit schemes		-	-	-	21	21
Income tax credit / (expense) on items recognised directly in equity		-	(2)	8	(6)	-
Total comprehensive income for the year		-	5	(19)	1,780	1,766
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(1,684)	(1,684)
Preference dividends paid	20	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(1,695)	(1,695)
As at 30 September 2017		8,888	5	43	3,845	12,781
Profit or loss		-	-	-	1,953	1,953
Unrealised gains / (losses) recognised directly in equity		-	8	(35)	-	(27)
Realised losses transferred to the income statement		-	-	5	-	5
Actuarial gain on defined benefit schemes		-	-	-	2	2
Income tax credit / (expense) on items recognised directly in equity		-	(2)	9	(1)	6
Total comprehensive income for the year		-	6	(21)	1,954	1,939
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary shares issued	20	3,000	-	-	-	3,000
Ordinary dividends paid	5	-	-	-	(4,600)	(4,600)
Preference dividends paid	20	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		3,000	-	-	(4,611)	(1,611)
As at 30 September 2018		11,888	11	22	1,188	13,109

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

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') for the year ended 30 September 2018. The Bank is incorporated and domiciled in New Zealand. The address of the Bank's registered office and its principal place of business is ANZ Centre, 23-29 Albert Street, Auckland, New Zealand.

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

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

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

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

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

This section of the financial statements:

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

BASIS OF PREPARATION

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

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

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

BASIS OF MEASUREMENT

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

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

BASIS OF CONSOLIDATION

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

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

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

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

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2018, and have not been applied by the Banking Group in preparing these financial statements.

The Banking Group has identified three standards where this applies to the Banking Group and further details are set out below.

***NZ IFRS 9 Financial Instruments* (NZ IFRS 9)**
NZ IFRS 9 is effective for the Banking Group from 1 October 2018. NZ IFRS 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements and estimated impacts on the Banking Group are outlined below.

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

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

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

NZ IFRS 16 Leases (NZ IFRS 16)
The final version of NZ IFRS 16 was issued in February 2016 and is not effective for the Banking Group until 1 October 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset; and its obligation to make lease payments as a lease liability. NZ IFRS 16 substantially carries forward the lessor accounting requirements in NZ IAS 17 *Leases*.

The Banking Group is in the process of assessing the impact of the application of NZ IFRS 16 and is not yet able to reasonably estimate the impact on its financial statements.

2. OPERATING INCOME

	2018 NZ$m	2017 NZ$m
Net Interest income		
Interest income by type of financial asset		
Financial assets at amortised cost	**5,986**	5,736
Trading securities	**240**	351
Available-for-sale assets	**159**	106
Financial assets at fair value through profit or loss	**5**	5
Interest income	**6,390**	6,198
Interest expense by type of financial liability		
Financial liabilities at amortised cost	**(3,168)**	(3,023)
Financial liabilities designated at fair value through profit or loss	**(72)**	(138)
Interest expense	**(3,240)**	(3,161)
Net interest income	**3,150**	3,037
Other operating income		
(i) Fee and commission income		
Lending and credit facility fees	**32**	35
Non-lending fees and commissions	**725**	702
Fee and commission income	**757**	737
Fee and commission expense	**(363)**	(328)
Net fee and commission income	**394**	409
(ii) Other income		
Net foreign exchange earnings and other financial instruments income	**237**	129
Derivative valuation adjustments	**13**	33
Loss on sale of mortgages to NZ Branch	**(1)**	(1)
Gain on UDC terminated transaction	**20**	-
Insurance proceeds	**20**	-
Other	**33**	34
Other income	**322**	195
Other operating income	**716**	604
Net funds management and insurance income		
Net funds management income	**217**	199
Net insurance income	**188**	130
Net funds management and insurance income	**405**	329
Share of associates' profit	**5**	5
Operating income	**4,276**	3,975

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest Income and Expense

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

OTHER OPERATING INCOME

Fee and Commission Income

We recognise fees or commissions:

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

Net Foreign Exchange Earnings and Other Financial Instruments Income

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

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

NET FUNDS MANAGEMENT AND INSURANCE INCOME

Net Funds Management Income

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

Net Insurance Income

We recognise:

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

SHARE OF ASSOCIATES' PROFIT

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

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING EXPENSES

	2018 NZ$m	2017 NZ$m
Personnel		
Salaries and related costs	820	801
Superannuation costs	29	29
Other	42	26
Personnel expenses	891	856
Premises		
Leasing and rental costs	82	80
Other	71	73
Premises expenses	153	153
Technology		
Licences and outsourced services	126	125
Other	99	93
Technology expenses	225	218
Other		
Advertising and public relations	43	41
Professional fees	45	43
Freight, stationery, postage and telephone	44	45
Charges from Ultimate Parent Bank	52	46
Other	64	66
Other expenses	248	241
Operating expenses	1,517	1,468

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

4. INCOME TAX

INCOME TAX EXPENSE

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

	2018 NZ$m	2017 NZ$m
Profit before income tax	**2,704**	2,445
Prima facie income tax expense at 28%	**757**	685
Tax effect of permanent differences:		
Imputed and non-assessable dividends	**(1)**	(1)
Tax provisions no longer required	**(3)**	(5)
Non assessable income and non deductible expenditure	**(1)**	2
Subtotal	**752**	681
Income tax over provided in previous years	**(1)**	(1)
Income tax expense	**751**	680
Current tax expense	**910**	641
Adjustments recognised in the current year in relation to the current tax of previous years	**(1)**	(1)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	**(158)**	40
Income tax expense	**751**	680
Effective tax rate	**27.8%**	27.8%

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total Dividend NZ$m
Financial Year 2017		
Dividend paid in March 2017	23.5 cents	785
Dividend paid in September 2017	26.9 cents	899
Dividends paid during the year ended 30 September 2017		1,684
Financial Year 2018		
Dividend paid in March 2018	23.9 cents	800
Dividend paid in April 2018	44.8 cents	1,500
Dividend paid in April 2018	31.0 cents	1,500
Dividend paid in September 2018	12.6 cents	800
Dividends paid during the year ended 30 September 2018		4,600

IMPUTATION CREDIT ACCOUNT

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

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

6. SEGMENT REPORTING

OPERATING SEGMENTS

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

Segment reporting has been updated to reflect minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

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

Commercial

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

Institutional

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

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

Other

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

6. SEGMENT REPORTING (continued)

Operating segment analysis

Year ended 30 September 2018	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
Interest income	3,538	2,139	719	(6)	6,390
Interest expense	(1,761)	(1,169)	(394)	84	(3,240)
Net interest income	1,777	970	325	78	3,150
Other operating income	680	21	265	155	1,121
Share of associates' profit	5	-	-	-	5
Operating income	2,462	991	590	233	4,276
Operating expenses	(1,036)	(258)	(182)	(41)	(1,517)
Profit before credit impairment and income tax	1,426	733	408	192	2,759
Credit impairment (charge) / release	(50)	41	(46)	-	(55)
Profit before income tax	1,376	774	362	192	2,704
Income tax expense	(384)	(217)	(101)	(49)	(751)
Profit after income tax	992	557	261	143	1,953
Other information					
Goodwill[1]	1,109	1,052	1,069	-	3,230
Net loans and advances	76,843	42,446	7,166	11	126,466
Customer deposits	70,259	16,842	16,954	-	104,055

Year ended 30 September 2017	Retail NZ$m	Commercial NZ$m	Institutional NZ$m	Other NZ$m	Total NZ$m
Interest income	3,430	2,070	699	(1)	6,198
Interest expense	(1,727)	(1,170)	(339)	75	(3,161)
Net interest income	1,703	900	360	74	3,037
Other operating income	688	21	302	(78)	933
Share of associates' profit	5	-	-	-	5
Operating income	2,396	921	662	(4)	3,975
Operating expenses	(1,005)	(259)	(189)	(15)	(1,468)
Profit before credit impairment and income tax	1,391	662	473	(19)	2,507
Credit impairment (charge) / release	(35)	(51)	24	-	(62)
Profit before income tax	1,356	611	497	(19)	2,445
Income tax expense	(379)	(172)	(140)	11	(680)
Profit after income tax	977	439	357	(8)	1,765
Other information					
Goodwill[1]	1,109	1,052	1,069	-	3,230
Net loans and advances[1]	71,942	40,963	7,589	45	120,539
Customer deposits[1]	67,796	14,059	14,974	-	96,829

1 Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT REPORTING (continued)

OTHER SEGMENT

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

	2018 NZ$m	2017 NZ$m
Central functions[1]	15	1
Technology and Group Centre	65	59
Economic hedges	48	(43)
Revaluation of insurance policies from changes in interest rates	15	(25)
Total	143	(8)

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

7. CASH AND CASH EQUIVALENTS

	2018 NZ$m	2017 NZ$m
Coins, notes and cash at bank	204	202
Securities purchased under agreements to resell in less than 3 months	136	360
Balances with central banks	1,734	1,776
Settlement balances owed to the Banking Group within 3 months[1]	126	-
Cash and cash equivalents	2,200	2,338

Reconciliation of cash and cash equivalents to the balance sheet

	2018 NZ$m	2017 NZ$m
Cash and cash equivalents per the balance sheet	2,200	2,338
Amounts included in settlement balances receivable / (payable):		
Nostro accounts[1]	-	170
Overdrawn nostro accounts	-	(69)
Cash and cash equivalents as per the cash flow statement	2,200	2,439

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

8. TRADING SECURITIES

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

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Derivative financial instruments - held for trading	7,746	(7,023)	9,490	(8,992)
Derivative financial instruments - designated in hedging relationships	340	(1,072)	388	(834)
Derivative financial instruments	8,086	(8,095)	9,878	(9,826)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

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

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

TYPES

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

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

RISKS MANAGED

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

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

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

Fair value	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Interest rate contracts				
Forward rate agreements	5	(4)	-	-
Futures contracts	7	(10)	5	(24)
Swap agreements	4,242	(3,920)	7,062	(6,335)
Options purchased	3	-	3	-
Options sold	-	(1)	-	(1)
Total	4,257	(3,935)	7,070	(6,360)
Foreign exchange contracts				
Spot and forward contracts	1,179	(889)	615	(696)
Swap agreements	2,248	(2,146)	1,773	(1,895)
Options purchased	34	(3)	17	-
Options sold	2	(24)	2	(27)
Total	3,463	(3,062)	2,407	(2,618)
Commodity contracts and credit default swaps	26	(26)	13	(14)
Derivative financial instruments - held for trading	7,746	(7,023)	9,490	(8,992)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group utilises two types of hedge accounting relationships:

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

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

Fair value	Hedge accounting type	Assets 2018 NZ$m	Liabilities 2018 NZ$m	Assets 2017 NZ$m	Liabilities 2017 NZ$m
Interest rate swap agreements	Fair value	54	(819)	86	(618)
Interest rate swap agreements	Cash flow	286	(253)	302	(216)
Derivative financial instruments - designated in hedging relationships		340	(1,072)	388	(834)

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Hedge accounting type	2018 NZ$m	2017 NZ$m
Gain/(loss) recognised in other operating income			
Hedged item	Fair value	212	153
Hedging instrument	Fair Value	(221)	(159)

RECOGNITION AND MEASUREMENT

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

KEY JUDGEMENTS AND ESTIMATES

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

10. AVAILABLE-FOR-SALE ASSETS

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

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

NOTES TO THE FINANCIAL STATEMENTS

11. NET LOANS AND ADVANCES

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

	Note	2018 NZ$m	2017 NZ$m
Overdrafts		905	1,040
Credit cards		1,644	1,638
Term loans - housing		78,395	72,524
Term loans - non-housing		44,169	44,227
Finance lease and hire purchase receivables		1,791	1,577
Subtotal		126,904	121,006
Unearned income		(239)	(222)
Capitalised brokerage/mortgage origination fees		313	334
Gross loans and advances (including assets reclassified as held for sale)		126,978	121,118
Provision for credit impairment	12	(512)	(579)
Net loans and advances (including assets reclassified as held for sale)		126,466	120,539
Less: Net loans and advances reclassified as held for sale	25	-	(2,912)
Net loans and advances		126,466	117,627
Residual contractual maturity:			
- within one year		26,896	23,799
- after more than one year		99,570	93,828
Net loans and advances		126,466	117,627

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$2,210 million as at 30 September 2018 (2017: NZ$4,337 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

RECOGNITION AND MEASUREMENT

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

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

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

The Banking Group enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When the Banking Group retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on the Banking Group's balance sheet, however if substantially all the risks and rewards are transferred, the Banking Group derecognises the asset.

If the risks and rewards are partially retained and control over the asset is lost, then the Banking Group derecognises the asset. If control over the asset is not lost, the Banking Group continues to recognise the asset to the extent of its continuing involvement.

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

12. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT – BALANCE SHEET

	Net loans and advances		Off-balance sheet credit related commitments		Total	
Provision for credit impairment	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Individual provision						
Balance at start of year	152	151	-	-	152	151
New and increased provisions	213	232	-	-	213	232
Write-backs	(83)	(95)	-	-	(83)	(95)
Bad debts written off (excluding recoveries)	(149)	(133)	-	-	(149)	(133)
Discount unwind	(3)	(3)	-	-	(3)	(3)
Total individual provision	130	152	-	-	130	152
Collective provision						
Balance at start of year	343	367	84	104	427	471
Release to profit or loss	(32)	(24)	(13)	(20)	(45)	(44)
Total collective provision	311	343	71	84	382	427
Total provision for credit impairment	441	495	71	84	512	579

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

Credit impairment charge	2018 NZ$m	2017 NZ$m
New and increased provisions	213	232
Write-backs	(83)	(95)
Recoveries of amounts previously written-off	(30)	(31)
Individual credit impairment charge	100	106
Collective credit impairment release	(45)	(44)
Total credit impairment charge	55	62

NOTES TO THE FINANCIAL STATEMENTS

12. PROVISION FOR CREDIT IMPAIRMENT (continued)

RECOGNITION AND MEASUREMENT

The Banking Group recognises two types of impairment provisions for its loans and advances:

- individual provisions for significant assets that are assessed to be impaired; and
- collective provisions for portfolios of similar assets that are assessed collectively for impairment.

The accounting treatment for each of them is detailed below:

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

KEY JUDGEMENTS AND ESTIMATES

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

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

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

13. DEPOSITS AND OTHER BORROWINGS

	Note	2018 NZ$m	2017 NZ$m
Term deposits		**51,298**	45,457
On demand and short term deposits		**41,602**	41,451
Deposits not bearing interest		**10,224**	8,882
UDC secured investments	17	**931**	1,039
Total customer deposits		**104,055**	96,829
Certificates of deposit		**910**	1,916
Commercial paper		**2,486**	3,721
Securities sold under repurchase agreements		**517**	157
Deposits from Immediate Parent Company and NZ Branch	26	**40**	73
Deposits and other borrowings (including liabilities reclassified as held for sale)		**108,008**	102,696
Less: Deposits and other borrowings reclassified as held for sale	25	**-**	(1,039)
Deposits and other borrowings		**108,008**	101,657
Residual contractual maturity:			
- to be settled within 1 year		**103,492**	97,301
- to be settled after 1 year		**4,516**	4,356
Deposits and other borrowings		**108,008**	101,657
Carried on Balance Sheet at:			
Amortised cost		**105,522**	97,936
Fair value through profit or loss (designated on initial recognition)		**2,486**	3,721
Deposits and other borrowings		**108,008**	101,657

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. DEBT ISSUANCES

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

	2018 NZ$m	2017 NZ$m
Senior debt	18,767	16,008
Covered bonds	3,929	5,315
Total unsubordinated debt	22,696	21,323
Subordinated debt		
- Additional Tier 1 capital	2,439	2,438
- Other	-	845
Total subordinated debt	2,439	3,283
Total debt issued	25,135	24,606

TOTAL DEBT ISSUED BY CURRENCY

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

		2018 NZ$m	2017 NZ$m
AUD	Australian Dollars	45	54
EUR	Euro	6,740	6,676
JPY	Japanese Yen	36	38
NZD	New Zealand Dollars	6,654	7,147
CHF	Swiss Francs	1,658	1,672
USD	United States Dollars	10,002	9,019
Total debt issued		25,135	24,606
Residual contractual maturity:			
- to be settled within 1 year		3,835	4,014
- to be settled after 1 year		21,300	20,592
Total debt issued		25,135	24,606

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

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

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

SUBORDINATED DEBT

Certain subordinated debt qualifies as regulatory capital for the Banking Group and is classified as Additional Tier 1 (AT1) capital for RBNZ's capital adequacy purposes depending on their term and conditions:

- AT1 Capital: perpetual capital instruments such as:
  - ANZ NZ Capital Notes (ANZ NZ CN);
  - ANZ NZ Internal Capital Notes 1 (ANZ NZ ICN); and
  - ANZ NZ Internal Capital Notes 2 (ANZ NZ ICN2).

14. DEBT ISSUANCES (continued)

AT1 Capital

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

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

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

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

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

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

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

Where specified, AT1 capital notes mandatorily convert into a variable number of ordinary shares of the Bank (ANZ NZ ICN and ANZ NZ ICN2) (based on the net assets per share in the Bank's most recently published Disclosure Statement) or the Ultimate Parent Bank (ANZ NZ CN) (based on the average market value of the shares immediately prior to conversion less a 1% discount):
- on a specified mandatory conversion date; or
- on an earlier date under certain circumstances as set out in the terms.

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

The table below show the key details of the AT1 capital notes on issue at 30 September in both the current and the prior year:

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ$500 million	NZ$1,003 million	NZ$938 million
Face value	NZ$1	NZ$100	NZ$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: (New Zealand 3 month Bank bill rate + 3.5%)	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	25 May 2020	24 March 2023	15 June 2026 and each 5th anniversary
Mandatory conversion date	25 May 2022	24 March 2025	n/a
Common equity capital trigger event	Yes	Yes	Yes
Non-viability trigger event	Yes	Yes	Yes
Carrying value as at 30 September 2018 (net of issue costs)	NZ$498 million	NZ$1,003 million	NZ$938 million

RECOGNITION AND MEASUREMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

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

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

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

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

The Internal Audit Function reports directly to the Bank's Board Audit Committee (BAC). Internal Audit provides:

- an independent evaluation of the Banking Group's RMF annually and undertakes a comprehensive review every three years;
- assurance on the appropriateness, effectiveness and adequacy of the risk management framework, which includes assurance the framework is operating effectively; and
- recommendations to improve the framework and/or work practices to strengthen the effectiveness of day to day operations.

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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

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

	Reported		Excluded[1] / Other[2]		Maximum exposure to credit risk	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
On-balance sheet positions						
Net loans and advances[2,3]	**126,466**	120,539	**(71)**	(84)	**126,537**	120,623
Other financial assets:						
Cash and cash equivalents	**2,200**	2,338	**204**	198	**1,996**	2,140
Settlement balances owed to the Banking Group	**656**	536	**-**	-	**656**	536
Collateral paid	**1,919**	1,415	**-**	-	**1,919**	1,415
Trading securities	**8,024**	7,663	**-**	-	**8,024**	7,663
Derivative financial instruments	**8,086**	9,878	**-**	-	**8,086**	9,878
Available-for-sale assets	**6,502**	6,360	**-**	-	**6,502**	6,360
Other financial assets[4]	**719**	744	**-**	-	**719**	744
Total other financial assets	**28,106**	28,934	**204**	198	**27,902**	28,736
Subtotal	**154,572**	149,473	**133**	114	**154,439**	149,359
Off-balance sheet positions						
Undrawn and contingent facilities[2,5]	**30,105**	29,377	**71**	84	**30,034**	29,293
Total	**184,677**	178,850	**204**	198	**184,473**	178,652

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

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

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

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

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Neither past due nor impaired								
Strong credit profile	92,783	81,595	27,368	28,024	23,475	22,922	143,626	132,541
Satisfactory risk	29,335	34,283	521	702	6,186	6,016	36,042	41,001
Sub-standard but not past due or impaired	2,296	2,558	13	10	359	349	2,668	2,917
Subtotal	124,414	118,436	27,902	28,736	30,020	29,287	182,336	176,459
Past due but not impaired								
≥ 1 < 30 days	1,420	1,385	-	-	-	-	1,420	1,385
≥ 30 < 60 days	179	290	-	-	-	-	179	290
≥ 60 < 90 days	128	125	-	-	-	-	128	125
≥ 90 days	205	182	-	-	-	-	205	182
Subtotal	1,932	1,982	-	-	-	-	1,932	1,982
Impaired								
Impaired loans	321	357	-	-	-	-	321	357
Non-performing commitments and contingencies	-	-	-	-	14	6	14	6
Gross impaired financial assets	321	357	-	-	14	6	335	363
Individual provisions	(130)	(152)	-	-	-	-	(130)	(152)
Subtotal net impaired	191	205	-	-	14	6	205	211
Total	126,537	120,623	27,902	28,736	30,034	29,293	184,473	178,652

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

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

	Loans and advances[3,4]		Other financial assets[4]		Off-balance sheet credit related commitments[5]		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
New Zealand residents								
Agriculture	17,844	17,686	82	83	1,373	1,436	19,299	19,205
Forestry and fishing, agriculture services	1,379	1,277	9	5	249	240	1,637	1,522
Manufacturing	2,687	2,729	284	169	1,793	1,798	4,764	4,696
Electricity, gas, water and waste services	1,403	1,602	330	457	1,576	1,522	3,309	3,581
Construction	1,713	1,635	21	18	1,358	1,119	3,092	2,772
Wholesale trade	1,404	1,630	63	54	1,521	1,357	2,988	3,041
Retail trade and accommodation	3,211	3,058	27	28	969	1,133	4,207	4,219
Transport, postal and warehousing	1,222	1,440	121	69	783	894	2,126	2,403
Finance and insurance services	872	903	5,509	5,268	1,567	1,259	7,948	7,430
Public administration and safety[1]	364	412	9,654	8,099	1,043	794	11,061	9,305
Rental, hiring & real estate services	31,805	30,697	235	218	3,461	3,699	35,501	34,614
Professional, scientific, technical, administrative and support services	1,165	1,267	9	10	633	619	1,807	1,896
Households	56,808	51,554	192	180	11,977	11,878	68,977	63,612
All other New Zealand residents[2]	2,569	2,625	167	253	1,663	1,474	4,399	4,352
Subtotal	124,446	118,515	16,703	14,911	29,966	29,222	171,115	162,648
Overseas								
Finance and insurance services	128	123	11,109	13,126	139	155	11,376	13,404
Households	1,512	1,454	5	5	-	-	1,517	1,459
All other non-NZ residents	818	914	85	694	-	-	903	1,608
Subtotal	2,458	2,491	11,199	13,825	139	155	13,796	16,471
Gross subtotal	126,904	121,006	27,902	28,736	30,105	29,377	184,911	179,119
Provision for credit impairment	(441)	(495)	-	-	(71)	(84)	(512)	(579)
Subtotal	126,463	120,511	27,902	28,736	30,034	29,293	184,399	178,540
Unearned income	(239)	(222)	-	-	-	-	(239)	(222)
Capitalised brokerage / mortgage origination fees	313	334	-	-	-	-	313	334
Maximum exposure to credit risk	126,537	120,623	27,902	28,736	30,034	29,293	184,473	178,652

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

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

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

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

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

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Net loans and advances[1]	**126,537**	120,623	**117,337**	110,914	**9,200**	9,709
Other financial assets[1]	**27,902**	28,736	**2,029**	1,617	**25,873**	27,119
Off-balance sheet positions	**30,034**	29,293	**15,124**	14,526	**14,910**	14,767
Total	**184,473**	178,652	**134,490**	127,057	**49,983**	51,595

[1] Including items reclassified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

MEASUREMENT OF MARKET RISK

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

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

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

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

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

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

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

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

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

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

Non-traded market risk

Balance sheet risk management

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

Interest rate risk management

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

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

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

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

	2018	2017
Impact of 1% rate shock		
As at period end	-0.4%	0.6%
Maximum exposure	0.9%	0.9%
Minimum exposure	-1.2%	-0.3%
Average exposure (in absolute terms)	0.0%	0.4%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Supervision and regulation

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

Scenario modelling

A key component of the Banking Group's liquidity management framework is scenario modelling.

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

As of 30 September 2018 the Banking Group was in compliance with the above scenarios.

Structural balance sheet metrics

The Banking Group's liquidity management framework also encompasses structural balance sheet metrics such as the RBNZ core funding ratio. These metrics are designed to limit the amount of funding required to be rolled over within a 1 year timeframe and so interact with the liquidity scenarios to maintain the Banking Group's liquidity position.

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency while targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term wholesale funding requirements, with a contractual maturity of less than one year, are managed through Treasury and Markets operations. Long-term wholesale funding is managed and executed through Treasury operations.

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

Funding capacity and debt issuance planning

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

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

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

Total liquidity portfolio

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

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

Liquidity crisis contingency planning

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

FUNDING POSITION

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

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

	Note	2018 NZ$m	2017 NZ$m
Funding composition			
Customer deposits[1]	13	104,055	96,829
Wholesale funding			
Debt issuances		25,135	24,606
Certificates of deposit and commercial paper		3,396	5,637
Other borrowings		557	230
Total wholesale funding		29,088	30,473
Total funding		133,143	127,302
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		3,763	3,487
Manufacturing		2,335	2,024
Construction		2,050	1,851
Wholesale trade		1,571	1,433
Retail trade and accommodation		1,484	1,516
Financial and insurance services		10,661	8,996
Rental, hiring and real estate services		2,878	2,596
Professional, scientific, technical, administrative and support services		5,126	5,034
Public administration and safety		1,572	1,261
Arts, recreation and other services		2,027	1,928
Households		56,640	53,222
All other New Zealand residents[2]		3,556	3,483
		93,663	86,831
Customer deposits by industry - overseas			
Households		9,876	9,461
All other non-NZ residents		516	537
		10,392	9,998
Total customer deposits		104,055	96,829
Wholesale funding (financial and insurance services industry)			
New Zealand		8,082	9,134
Overseas		21,006	21,339
Total wholesale funding		29,088	30,473
Total funding		133,143	127,302
Concentrations of funding by geography			
New Zealand		101,745	95,965
Australia		739	796
United States		13,671	13,471
Europe		9,618	9,784
Other countries		7,370	7,286
Total funding		133,143	127,302

1 Including items reclassified as held for sale.
2 Other includes mining; electricity, gas, water and waste services; transport, postal and warehousing; information media and telecommunications; education and training; health care and social assistance.

15. FINANCIAL RISK MANAGEMENT (continued)

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

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

It should be noted that this is not how the Banking Group manages its liquidity risk.

2018	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances owed by the Banking Group	1,338	837	-	-	-	2,175
Collateral received	-	845	-	-	-	845
Deposits and other borrowings[1]	52,016	25,701	27,008	4,854	-	109,579
Derivative financial liabilities (trading)	-	6,147	-	-	-	6,147
Debt issuances[2]	-	930	3,676	17,810	4,596	27,012
Other financial liabilities[1]	-	119	7	44	76	246
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,790	2,033	9,080	1,266	14,169
- gross outflows	-	(1,998)	(2,218)	(9,368)	(1,179)	(14,763)

2017	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances owed by the Banking Group	1,165	685	-	-	-	1,850
Collateral received	-	613	-	-	-	613
Deposits and other borrowings[1]	58,287	24,814	24,320	4,504	-	111,925
Derivative financial liabilities (trading)	-	8,057	-	-	-	8,057
Debt issuances[2]	-	1,604	2,950	16,496	5,424	26,474
Other financial liabilities[1]	-	155	6	56	144	361
Derivative financial instruments (balance sheet management)						
- gross inflows	-	2,082	2,300	8,128	2,867	15,377
- gross outflows	-	(2,235)	(2,433)	(8,328)	(2,741)	(15,737)

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

At 30 September 2018, NZ$93 million (2017: NZ$88 million) of the Banking Group's non-credit related commitments and NZ$30,105 million (2017: NZ$29,377 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

VALUATION OF FINANCIAL INSTRUMENTS

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

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

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

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

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

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

CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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

		2018			2017		
	Fair value details refer to Note	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m
Financial assets							
Cash and cash equivalents		2,200	-	2,200	2,338	-	2,338
Settlement balances owed to the Banking Group		656	-	656	536	-	536
Collateral paid		1,919	-	1,919	1,415	-	1,415
Trading securities	8	-	8,024	8,024	-	7,663	7,663
Derivative financial instruments	9	-	8,086	8,086	-	9,878	9,878
Available-for-sale assets	10	-	6,502	6,502	-	6,360	6,360
Net loans and advances[1]		126,466	-	126,466	120,539	-	120,539
Other financial assets[1]		592	127	719	621	123	744
Total		131,833	22,739	154,572	125,449	24,024	149,473
Financial liabilities							
Settlement balances owed by the Banking Group		2,161	-	2,161	1,840	-	1,840
Collateral received		845	-	845	613	-	613
Deposits and other borrowings[1]	13	105,522	2,486	108,008	98,975	3,721	102,696
Derivative financial instruments	9	-	8,095	8,095	-	9,826	9,826
Debt issuances		25,135	-	25,135	24,606	-	24,606
Other financial liabilities[1]		576	110	686	608	151	759
Total		134,239	10,691	144,930	126,642	13,698	140,340

1 Including items reclassified as held for sale.

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

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

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

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

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

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Assets								
Trading securities	6,795	7,276	1,229	387	-	-	8,024	7,663
Derivative financial instruments	7	5	8,076	9,870	3	3	8,086	9,878
Available-for-sale assets	6,457	5,336	44	1,023	1	1	6,502	6,360
Investments backing insurance contract liabilities[1]	-	-	127	123	-	-	127	123
Total	13,259	12,617	9,476	11,403	4	4	22,739	24,024
Liabilities								
Deposits and other borrowings[1]	-	-	2,486	3,721	-	-	2,486	3,721
Derivative financial instruments	10	24	8,084	9,801	1	1	8,095	9,826
Other financial liabilities	110	151	-	-	-	-	110	151
Total	120	175	10,570	13,522	1	1	10,691	13,698

1 Including items reclassified as held for sale.

Fair value designation

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

NOTES TO THE FINANCIAL STATEMENTS

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

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

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

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

	Carrying amount		Categorised into fair value hierarchy						Fair value (total)	
			Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)			
	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m	2018 NZ$m	2017 NZ$m
Financial assets										
Net loans and advances[1, 2]	126,466	120,539	-	-	131	136	126,614	120,452	126,745	120,588
Total	126,466	120,539	-	-	131	136	126,614	120,452	126,745	120,588
Financial liabilities										
Deposits and other borrowings[1]	105,522	98,975	-	-	105,592	99,030	-	-	105,592	99,030
Debt issuances	25,135	24,606	2,533	2,855	22,929	22,163	-	-	25,462	25,018
Total	130,657	123,581	2,533	2,855	128,521	121,193	-	-	131,054	124,048

1 Including items reclassified as held for sale.

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

KEY JUDGEMENTS AND ESTIMATES

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

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

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

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

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

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

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

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

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

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

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

18. OFFSETTING

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

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

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

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

			Amount subject to master netting agreement or similar			
2018	Total amounts recognised in the Balance Sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	8,086	(1,029)	7,057	(5,711)	(481)	865
Reverse repurchase agreements[1]	136	-	136	-	(136)	-
Total financial assets	8,222	(1,029)	7,193	(5,711)	(617)	865
Derivative financial instruments	(8,095)	694	(7,401)	5,711	563	(1,127)
Repurchase agreements[2]	(517)	-	(517)	-	517	-
Total financial liabilities	(8,612)	694	(7,918)	5,711	1,080	(1,127)

			Amount subject to master netting agreement or similar			
2017	Total amounts recognised in the Balance Sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	9,878	(1,933)	7,945	(7,478)	(245)	222
Reverse repurchase agreements[1]	360	-	360	-	(360)	-
Total financial assets	10,238	(1,933)	8,305	(7,478)	(605)	222
Derivative financial instruments	(9,826)	1,386	(8,440)	7,478	348	(614)
Repurchase agreements[2]	(157)	-	(157)	-	157	-
Total financial liabilities	(9,983)	1,386	(8,597)	7,478	505	(614)

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

19. GOODWILL AND OTHER INTANGIBLE ASSETS

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

GOODWILL ALLOCATED TO CASH-GENERATING UNITS (CGUs)

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

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

VALUE-IN-USE

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

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

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

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

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

20. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ$ millions	
	2018	2017	2018	2017
Ordinary shares				
Ordinary shares at start of year	3,345,755,498	3,345,755,498	8,588	8,588
Ordinary shares issued during the year	3,000,000,000	-	3,000	-
Ordinary shares at end of year[1]	6,345,755,498	3,345,755,498	11,588	8,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	3,645,755,498	11,888	8,888

1 Includes 650,712 (2017: 650,712) uncalled shares.

Preference shares

The key terms of the preference shares are as follows:

Dividends

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

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

Redemption features

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

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

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

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

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Company, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Preference shares	All preference shares were issued by the Bank to the Immediate Parent and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and ANZ capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.
Reserves:	
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of deferred taxes to be realised when the position is settled.
Available-for-sale reserve	Includes the changes in fair value and exchange differences on our revaluation of available-for-sale financial assets, net of deferred taxes to be realised upon disposal of the asset.

NOTES TO THE FINANCIAL STATEMENTS

21. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Banking Group's core capital objectives are to:

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

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

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

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

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

The Banking Group complied with all the regulatory Capital Adequacy requirements during the current and prior years.

REGULATORY ENVIRONMENT

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

	Regulatory capital definition	Minimum capital ratios
Common Equity Tier 1 (CET1) capital	Comprises ordinary share capital, retained earnings, and certain accounting reserves. Some amounts (e.g. the value of goodwill) must be deducted to determine the final value of CET1 capital.	CET1 capital divided by total risk weighted assets must be at least 4.5%.
Tier 1 capital	CET1 capital plus additional tier 1 instruments, which comprise high-quality capital and must: • provide a permanent and unrestricted commitment of funds; • be freely available to absorb losses; and provide for fully discretionary capital distributions.	Tier 1 capital divided by total risk weighted assets must be at least 6.0%.
Tier 2 capital	Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	No minimum.
Total capital	Tier 1 plus Tier 2 capital.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 2.5%.

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

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

21. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

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

Unaudited	2018 NZ$m	2017 NZ$m
Qualifying capital		
Tier 1		
Shareholder's equity	13,109	12,781
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	12,809	12,481
Deductions	(3,728)	(3,754)
Common Equity Tier 1 capital	9,081	8,727
Additional tier 1 capital	2,776	2,778
Tier 1 capital	11,857	11,505
Tier 2 capital	-	234
Total capital	11,857	11,739
Capital adequacy ratios		
Common Equity Tier 1	11.1%	10.7%
Tier 1	14.4%	14.1%
Tier 2	0.0%	0.3%
Total	14.4%	14.4%
Buffer ratio	6.4%	6.2%
Risk weighted assets	82,147	81,642

22. CONTROLLED ENTITIES

The following table lists the principal subsidiaries of the Bank. Principal subsidiaries are those that have transactions or balances with parties outside the Banking Group. All subsidiaries are 100% owned and incorporated in New Zealand.

	Nature of business
ANZ Bank New Zealand Limited	**Registered bank**
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Securities Limited	On-line share broker
ANZNZ Covered Bond Trust[1]	Securitisation entity
Arawata Assets Limited	Property
Karapiro Investments Limited	Asset finance
Kingfisher NZ Trust 2008-1[1]	Securitisation entity
OnePath Life (NZ) Limited	Insurance
UDC Finance Limited	Asset finance

1 The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in Note 23 Structured Entities.

RECOGNITION AND MEASUREMENT

The Banking Group subsidiaries are those entities it controls through:

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

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

NOTES TO THE FINANCIAL STATEMENTS

23. STRUCTURED ENTITIES

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

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

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

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

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

CONSOLIDATED STRUCTURED ENTITIES

Financial or Other Support Provided to Consolidated Structured Entities

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

23. STRUCTURED ENTITIES (continued)

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's Interest in Unconsolidated Structured Entities

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

For the purpose of disclosing interests in unconsolidated SEs:

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

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

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

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

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

24. TRANSFERS OF FINANCIAL ASSETS

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

Covered bonds

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

NOTES TO THE FINANCIAL STATEMENTS

24. TRANSFERS OF FINANCIAL ASSETS (continued)

Repurchase agreements

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

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

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

25. ASSETS AND LIABILITIES HELD FOR SALE

UDC

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

OnePath

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

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

KEY JUDGEMENTS AND ESTIMATES

A significant level of judgement is used by the Banking Group to determine:

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

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

26. RELATED PARTY DISCLOSURES

Key management personnel

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

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

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

	2018 NZ$000	2017 NZ$000
Key management personnel compensation		
Salaries and short-term employee benefits	11,677	11,430
Post-employment benefits	655	480
Other long-term benefits	38	60
Share-based payments	3,308	3,515
Total	15,678	15,485
Loans to, and securities held by, key management personnel and their related parties		
Loans	7,226	5,102
Unsubordinated debt	-	520
Subordinated debt	120	190

Transactions with other related parties

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

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

In addition the Bank undertakes similar transactions with subsidiaries, which are eliminated in the consolidated Banking Group financial statements. Included within the Bank's transactions with subsidiaries is the provision of administrative functions to some subsidiaries for which no payments have been made.

Transactions with related parties

	2018 NZ$m	2017 NZ$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Interest income	13	32
Interest expense	138	146
Fee income	9	14
Gain/(loss) on sale of mortgages to the NZ Branch	(1)	(1)
Other operating income	43	23
Operating expenses	52	46
Mortgages sold to the NZ Branch	302	481
Mortgages repurchased from the NZ Branch	1,575	736
Immediate Parent Company		
Interest expense	1	1
Ordinary shares issued	3,000	-
Dividends paid	4,611	1,695
Associates		
Direct fee expense	10	10
Dividends received	6	5
Share of associates' profit	5	5

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES (continued)

Balances with related parties

	2018 NZ$m	2017 NZ$m
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Cash and cash equivalents	33	64
Settlement balances owed to the Banking Group	-	111
Derivative financial instruments	2,431	2,623
Other assets	39	42
Immediate Parent Company		
Derivative financial instruments	-	4
Associates		
Investments in associates	6	7
Total due from related parties	2,509	2,851
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances owed by the Banking Group	125	220
Collateral received	257	198
Deposits and other borrowings	11	11
Derivative financial instruments	2,248	2,486
Payables and other liabilities	30	31
Subordinated debt	1,941	1,951
Immediate Parent Company		
Deposits and other borrowings	29	62
Derivative financial instruments	1	-
Associates		
Payables and other liabilities	1	1
Total due to related parties	4,643	4,960

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

	2018 NZ$m	2017 NZ$m
Financial guarantees provided to the Ultimate Parent Bank	138	155
Undrawn credit commitments provided to the Immediate Parent Company	250	250

27. COMMITMENTS AND CONTINGENT LIABILITIES

PROPERTY RELATED COMMITMENTS

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

27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2018 NZ$m	2017 NZ$m
Contract amount of:		
Undrawn facilities	**27,245**	26,769
Guarantees and letters of credit	**1,531**	1,010
Performance related contingencies	**1,329**	1,598
Total	**30,105**	29,377

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total undrawn facilities of NZ$27,245 million (2017: NZ$26,769 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

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

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

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

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

OTHER CONTINGENT LIABILITIES

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

In recent years there has been an increase in the number of matters on which the Banking Group engages with its regulators. Globally there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators and customer claims. The Banking Group also instigates engagement with its regulators. The nature of these investigations and reviews can be wide-ranging and, for example, may include a range of matters including responsible lending practices, product suitability, wealth advice and adequacy of product disclosure documentation. The Banking Group has received various notices and requests for information from its regulators as part of both industry-wide and Banking Group specific reviews, and has also made disclosures to its regulators at its own instigation. 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.

28. COMPENSATION OF AUDITORS

	2018 NZ$000	2017 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	2,199	2,227
Audit related services:		
Prudential and regulatory services[2]	212	225
Offer documents assurance or review	104	146
Other assurance services[3]	36	95
Total audit related services	352	466
Total compensation of auditors relating to the Banking Group	2,551	2,693
Fees relating to certain managed funds and not recharged[4]	45	46
Total compensation of auditors	2,596	2,739

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

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

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REGISTERED BANK DISCLOSURES

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

B1. GENERAL DISCLOSURES

Details of ultimate parent bank and ultimate holding company

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

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

Effect of APRA's Prudential Standards

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

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

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

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

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

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

Effect of the Level 3 framework

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

Other APRA powers

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

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

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

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

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

Priority of creditors' claims

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

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 26 for further details, and to page 43 for the amount of assets of the ANZ Covered Bond Trust pledged as security for covered bonds.

No other material obligations of the Bank are guaranteed as at 15 November 2018.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Directors

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



	Rt Hon Sir John Key, GNZM AC	David Hisco	Antony Carter
Position	Independent Non-Executive Director and Chair	Chief Executive Officer and Director	Independent Non-Executive Director
Occupation	Company Director	Chief Executive Officer New Zealand and Group Executive	Company Director
Qualifications	BCom, DCom (Honoris Causa)	BBus, MBA	BE (Hons), ME, FNZIM
Resides	Auckland, New Zealand	Auckland, New Zealand	Auckland, New Zealand
Other company directorships	Air New Zealand Ltd, Australia and New Zealand Banking Group Ltd, Thirty Eight JK Ltd	None	Air New Zealand Ltd, Avonhead Mall Ltd, Blues Management Ltd, Fisher & Paykel Healthcare Corporation Ltd, Fisher & Paykel Healthcare Employee Share Purchase Trustee Ltd, Fletcher Building Ltd, Fletcher Building Industries Ltd, Loughborough Investments Ltd, Modern Merchants Ltd, Strategic Interchange Ltd, Tetrad Corporation Ltd



	Shayne Elliott	Michelle Jablko	Mark Verbiest
Position	Non-Executive Director	Non-Executive Director	Independent Non-Executive Director
Occupation	Chief Executive Officer, Australia and New Zealand Banking Group Ltd	Chief Financial Officer, Australia and New Zealand Banking Group Ltd	Company Director
Qualifications	BCom	LLB (Hons), B.Ec (Hons)	LLB, CFInstD
Resides	Melbourne, Australia	Melbourne, Australia	Wanaka, New Zealand
Other company directorships	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children	ANZ Holdings (New Zealand) Ltd	Bear Fund NZ Ltd, Freightways Ltd, Willis Bond Capital Partners Ltd, Willis Bond General Partner Ltd, MyCare Ltd, Meridian Energy Ltd

	Joan Withers
Position	Independent Non-Executive Director
Occupation	Company Director
Qualifications	MBA, AFInstD
Resides	Auckland, New Zealand
Other company directorships	Mercury NZ Ltd, On Being Bold Ltd, The Warehouse Group Ltd, The Warehouse Planit Trustees Ltd, The Warehouse Management Trustee Company Ltd, The Warehouse Management Trustee Company No.2 Ltd

B1. GENERAL DISCLOSURES (continued)

Transactions with Directors

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

Board Audit Committee

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

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

In order to ensure that members of the Board are reminded of their disclosure obligations under the Companies Act 1993, the following procedures are adopted:

- at least once in each year, Directors are requested to complete, in terms of section 140(1) of the Companies Act 1993, a disclosure of any interests which they have with the Bank itself. Directors are reminded at this time of their obligation under the Companies Act 1993 to disclose promptly any transaction or proposed transaction with the Bank in which they have an interest.
- Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

In addition to the written disclosures referred to above, Directors disclose relevant interests which they have before discussion of particular business items.

The Companies Act 1993 allows a Director with an interest in a transaction to participate in discussions and to vote on all matters relating to that particular transaction. However, the Board has adopted a guideline whereby a Director with an interest in a transaction should not be present during any discussions, and should not vote, on any matter pertaining to that particular transaction.

Auditors

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

Conditions of registration

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

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

1. That—

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

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

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

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

(e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

(f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document: "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

"Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

1A. That—

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;

(b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015; and

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

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

(a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875% - 2.5%	60%

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration, —

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,-

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

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

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

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

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

B1. GENERAL DISCLOSURES (continued)

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

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

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

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

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

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

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

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

   This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2022 or when the existing outsourcing arrangement becomes compliant with condition 24, from which point in time condition 24 will apply to that outsourcing arrangement.

   For the purposes of this condition of registration:
   (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
   (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated September 2017.

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;

    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and

    (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

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

    For the purposes of this condition, —

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

    "SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

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

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

        (i) all liabilities are frozen in full; and

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

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

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

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

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

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

    For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

B1. GENERAL DISCLOSURES (continued)

18. That the bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities" and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

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

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

24. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated September 2017.

In these conditions of registration,—

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

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

In conditions of registration 21 to 23, —

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2018:

"loan-to-valuation measurement period" means—

(a) the six calendar month period ending on the last day of March 2018; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2018.

Non-compliance with conditions of registration

During the year ended 30 September 2018, the Bank sought clarification from RBNZ as to the treatment of commitments jointly held with the Ultimate Parent Bank in the risk weighted exposures for the Banking Group for capital adequacy purposes. RBNZ subsequently confirmed that those parts of the commitments that are not allocated to the Banking Group, but could become allocated to the Banking Group at the customer's request should be included in the Banking Group's calculation of risk weighted exposures. As a result, the Bank had not complied with Condition of Registration 1 and Condition of Registration 1B for a period of time. These commitments are included in the Banking Group's risk weighted exposures as at 30 September 2018, and the Bank was in full compliance with its Conditions of Registration as at that date. The Banking Group's capital ratios were not materially affected as a result of the non-compliance. As at 30 September 2018, the Banking Group's Tier 1 capital ratio decreased by 13 basis points to 14.4% and it had a NZ$58 million increase in its minimum capital requirement as a result of including these commitments in its risk weighted exposures. The Bank proactively brought this matter to the attention of RBNZ, who have acknowledged that no further action is warranted on the part of RBNZ.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (continued)

Pending proceedings or arbitration

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

Credit rating

As at 15 November 2018 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars. On 19 June 2017, Moody's Investors Service downgraded the Bank's credit rating from Aa3 to A1 and changed the outlook on the Bank from Negative to Stable.

The Bank's credit ratings are:

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

The following table describes the credit rating grades available:

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

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

B1. GENERAL DISCLOSURES (continued)

Historical summary of financial statements

Income Statement	2018 NZ$m	2017 NZ$m	2016 NZ$m	2015 NZ$m	2014 NZ$m
Interest income	**6,390**	6,198	6,423	6,926	6,272
Interest expense	**(3,240)**	(3,161)	(3,421)	(4,051)	(3,529)
Net interest income	**3,150**	3,037	3,002	2,875	2,743
Non-interest income	**1,126**	938	852	1,175	1,085
Operating income	**4,276**	3,975	3,854	4,050	3,828
Operating expenses	**(1,517)**	(1,468)	(1,599)	(1,512)	(1,489)
Credit impairment (charge) / release	**(55)**	(62)	(150)	(74)	16
Profit before income tax	**2,704**	2,445	2,105	2,464	2,355
Income tax expense	**(751)**	(680)	(570)	(681)	(639)
Profit after income tax	**1,953**	1,765	1,535	1,783	1,716
Dividends paid	**(4,611)**	(1,695)	(1,363)	(1,760)	(2,353)
Share capital issued	**3,000**	-	-	675	970
Balance Sheet					
Total assets	**159,012**	153,973	160,819	147,527	128,915
Total individually impaired assets	**321**	357	426	382	634
Total liabilities	**145,903**	141,192	148,109	135,074	117,134
Equity	**13,109**	12,781	12,710	12,453	11,781

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

Directors’ statements

The Directors' statement is included on page 83.

Auditor’s report

The auditor’s report is included on page 84.

Index

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

REGISTERED BANK DISCLOSURES

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2018 NZ$m	2017 NZ$m
Total interest earning and discount bearing assets	145,322	138,795
Total interest and discount bearing liabilities	124,625	119,814

Additional information on interest rate sensitivity

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

2018	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest NZ$m
Assets							
Cash and cash equivalents	2,200	1,913	-	-	-	-	287
Settlement balances owed to the Banking Group	656	-	-	-	-	-	656
Collateral paid	1,919	1,919	-	-	-	-	-
Trading securities	8,024	873	405	492	1,373	4,881	-
Derivative financial instruments	8,086	-	-	-	-	-	8,086
Available-for-sale assets	6,502	338	699	42	1,351	4,071	1
Net loans and advances[1]	126,466	63,027	10,370	23,835	20,835	8,771	(372)
Other financial assets[1]	719	62	55	8	-	2	592
Total financial assets	154,572	68,132	11,529	24,377	23,559	17,725	9,250
Liabilities							
Settlement balances owed by the Banking Group	2,161	750	-	-	-	-	1,411
Collateral received	845	845	-	-	-	-	-
Deposits and other borrowings[1]	108,008	67,952	12,924	12,444	3,043	1,421	10,224
Derivative financial instruments	8,095	-	-	-	-	-	8,095
Debt issuances	25,135	3,979	3,046	757	3,782	13,571	-
Other financial liabilities[1]	686	111	-	-	-	-	575
Total financial liabilities	144,930	73,637	15,970	13,201	6,825	14,992	20,305
Hedging instruments	-	14,690	1,522	(14,121)	(9,146)	7,055	-
Interest sensitivity gap	9,642	9,185	(2,919)	(2,945)	7,588	9,788	(11,055)

1 Including items reclassified as held for sale

Reconciliation of mortgage related amounts

As at 30 September 2018	Note	NZ$m
Term loans - housing[1]	11	78,395
Less: fair value hedging adjustment		(10)
Less: housing loans made to corporate customers		(2,224)
Add: unsettled re-purchases of mortgages from the NZ Branch		7
On-balance sheet residential mortgage exposures subject to the IRB approach	B4	76,168
Add: off-balance sheet residential mortgage exposures subject to the IRB approach	B4	8,232
Total residential mortgage exposures subject to the IRB approach (as per LVR analysis)	B4	84,400

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

B3. ASSET QUALITY

Past due assets

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Less than 30 days past due	595	186	639	1,420	556	187	642	1,385
At least 30 days but less than 60 days past due	109	31	39	179	85	34	171	290
At least 60 days but less than 90 days past due	105	20	3	128	95	18	12	125
At least 90 days past due	152	34	19	205	132	31	19	182
Total past due but not impaired	961	271	700	1,932	868	270	844	1,982

Movement in individually impaired assets

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	31	20	306	357	57	27	342	426
Additions	21	107	267	395	35	106	430	571
Amounts written off	(1)	(77)	(71)	(149)	(1)	(82)	(50)	(133)
Deletions	(26)	(25)	(231)	(282)	(60)	(31)	(416)	(507)
Balance at end of the period	25	25	271	321	31	20	306	357
Individual provision	21	11	98	130	25	6	121	152

Movement in balances of individual credit impairment allowances

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	25	6	121	152	37	6	108	151
Individual credit impairment charge / (release)								
New and increased provisions	7	90	116	213	5	94	133	232
Write-backs	(9)	(8)	(66)	(83)	(16)	(12)	(67)	(95)
Recoveries of amounts previously written off	-	(21)	(9)	(30)	-	(20)	(11)	(31)
Individual credit impairment charge / (release)	(2)	61	41	100	(11)	62	55	106
Bad debts written off	(1)	(77)	(71)	(149)	(1)	(82)	(50)	(133)
Add back recoveries of amounts previously written off	-	21	9	30	-	20	11	31
Discount unwind	(1)	-	(2)	(3)	-	-	(3)	(3)
Balance at end of the period	21	11	98	130	25	6	121	152

Movement in balances of collective credit impairment allowances

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Balance at beginning of the period	75	121	231	427	78	130	263	471
Charge / (release) to income statement	7	(3)	(49)	(45)	(3)	(9)	(32)	(44)
Balance at end of the period	82	118	182	382	75	121	231	427

Asset quality for financial assets designated at fair value

The Banking Group does not have any loans and advances designated at fair value through profit or loss.

Other asset quality information

	2018				2017			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Undrawn facilities with impaired customers	-	-	14	14	1	-	5	6
Other assets under administration	7	2	-	9	8	2	-	10

REGISTERED BANK DISCLOSURES

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

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2018	2017	2018	2017
Common equity tier 1 capital	4.5%	**11.1%**	10.7%	**9.5%**	9.5%
Tier 1 capital	6.0%	**14.4%**	14.1%	**13.0%**	13.0%
Total capital	8.0%	**14.4%**	14.4%	**13.0%**	13.3%
Buffer ratio	2.5%	**6.4%**	6.2%	**n/a**	n/a

Capital of the Banking Group

As at 30 September 2018	NZ$m
Tier 1 capital	
Common equity tier 1 (CET1) capital	
Paid up ordinary shares issued by the Bank	11,588
Retained earnings (net of appropriations)	1,188
Accumulated other comprehensive income and other disclosed reserves	33
Less deductions from common equity tier 1 capital	
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,381)
Cash flow hedge reserve	(22)
Expected losses to the extent greater than total eligible allowances for impairment	(325)
Common equity tier 1 capital	9,081
Additional tier 1 capital	
Preference shares[1]	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2]	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[2]	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[2]	938
Retained earnings of the Bonus Bonds Scheme [3]	55
Less deductions from additional tier 1 capital	
Surplus retained earnings of the Bonus Bonds Scheme [3]	(20)
Additional tier 1 capital	2,776
Total tier 1 capital	11,857
Tier 2 capital	-
Total capital	11,857

1 Classified as equity on the balance sheet under NZ Generally Accepted Accounting Practice (NZ GAAP).
2 Classified as a liability on the balance sheet under NZ GAAP.
3 Bonus Bonds Scheme is not consolidated on the balance sheet under GAAP but is classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 30 September 2018	Total exposures after credit risk mitigation NZ$m	Risk weighted exposure or implied risk weighted exposure[1] NZ$m	Total capital requirement NZ$m
Total credit risk	185,616	69,019	5,521
Operational risk	n/a	6,027	482
Market risk	n/a	4,776	382
Agri business supervisory adjustment	n/a	2,325	186
Total	185,616	82,147	6,571

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

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

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

IRB credit exposures by exposure class and customer credit rating

As at 30 September 2018	Probability of default %	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Corporate						
0 - 2	0.06	5,757	63	39	2,390	191
3 - 4	0.32	23,866	36	40	10,119	810
5	0.99	12,877	33	58	7,954	636
6	2.27	4,083	33	77	3,314	265
7 - 8	12.86	1,606	38	157	2,666	213
Default	100.00	381	45	163	660	53
Total corporate exposures	1.83	48,570	38	53	27,103	2,168
Sovereign						
0	0.01	11,636	5	1	160	13
1 - 8	0.02	680	5	1	10	1
Total sovereign exposures	0.01	12,316	5	1	170	14
Bank						
0	0.03	61	65	15	10	1
1	0.03	10,323	57	25	2,748	220
2 - 4	0.12	796	64	41	347	28
5 - 8	4.56	4	48	148	7	-
Total bank exposures	0.04	11,184	58	26	3,112	249
Residential mortgages						
0 - 3	0.20	24,424	12	5	1,397	112
4	0.46	34,360	18	15	5,370	430
5	0.92	21,170	23	31	6,963	557
6	1.98	4,504	26	60	2,862	229
7 - 8	4.89	356	27	97	364	29
Default	100.00	220	19	19	42	3
Total residential mortgages exposures	0.85	85,034	18	19	16,998	1,360
Other retail						
0 - 2	0.10	561	77	49	294	24
3 - 4	0.27	4,848	78	55	2,805	224
5	1.04	1,941	72	74	1,526	122
6	2.23	1,902	71	90	1,808	145
7 - 8	8.11	1,649	82	128	2,230	178
Default	100.00	80	77	48	42	3
Total other retail exposures	2.64	10,981	76	75	8,705	696
Total credit risk exposures subject to the IRB approach	1.14	168,085	30	31	56,088	4,487

Credit risk exposures subject to the IRB approach have been derived in accordance with *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

REGISTERED BANK DISCLOSURES

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

IRB credit exposures: On-balance sheet, off-balance sheet and market related contracts

As at 30 September 2018	Total exposure or principal amount NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures						
Corporate	34,724	34,604	33	53	19,298	1,543
Sovereign	12,178	11,855	5	1	120	10
Bank	5,907	5,262	56	19	1,073	86
Residential mortgages	76,168	76,391	19	19	15,761	1,261
Other retail	5,358	5,449	73	93	5,372	429
Total on-balance sheet exposures	134,335	133,561	25	29	41,624	3,329
Off-balance sheet exposures						
Corporate	12,154	11,210	48	48	5,684	455
Sovereign	346	313	5	1	2	-
Bank	1,787	1,445	53	18	272	22
Residential mortgages	8,232	8,643	16	14	1,237	99
Other retail	5,514	5,532	79	57	3,333	267
Total off-balance sheet exposures	28,033	27,143	44	37	10,528	843
Market related contracts						
Corporate	87,191	2,756	61	73	2,121	170
Sovereign	14,642	148	5	30	48	4
Bank	962,075	4,477	61	37	1,767	141
Total market related contracts	1,063,908	7,381	60	50	3,936	315
Total credit risk exposures subject to the IRB approach	1,226,276	168,085	30	31	56,088	4,487

Other IRB credit exposures

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Cash	204	-	-	-
New Zealand dollar denominated claims on the Crown and RBNZ	1,734	-	-	-
Other assets	1,502	100	1,592	127
Total other IRB credit risk exposures	3,440	44	1,592	127

Other IRB credit exposures have been calculated in accordance with BS2B.

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

As at 30 September 2018	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	37,789	5,565	43,354
Exceeds 60% and not 70%	17,267	1,320	18,587
Exceeds 70% and not 80%	17,234	1,035	18,269
Does not exceed 80%	72,290	7,920	80,210
Exceeds 80% and not 90%	2,617	131	2,748
Exceeds 90%	1,261	181	1,442
Total	76,168	8,232	84,400

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

Specialised lending subject to the slotting approach

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Strong	4,594	70	3,408	273
Good	5,735	90	5,472	438
Satisfactory	322	115	393	31
Weak	89	250	234	19
Default	39	-	-	-
Total on-balance sheet exposures	10,779	83	9,507	761

As at 30 September 2018	Exposure amount NZ$m	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	1,484	1,302	82	1,135	91
Market related contracts	2,006	102	130	141	11
Total off-balance sheet exposures	3,490	1,404	86	1,276	102

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

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

Credit risk exposures subject to the standardised approach

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Corporates	130	76	105	8
Default	1	150	1	-
Total on-balance sheet exposures	131	77	106	8

As at 30 September 2018	Exposure amount NZ$m	Average credit conversion factor %	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures						
Total off balance sheet exposures subject to the standardised approach	588	60	352	97	361	29
Market related contracts	222,026	1	1,418	4	61	5

Credit exposures subject to the standardised approach have been calculated in accordance with BS2A.

Equity exposures

As at 30 September 2018	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
All equity holdings not deducted from capital	7	400	28	2

Equity exposures have been calculated in accordance with BS2B.

REGISTERED BANK DISCLOSURES

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

Credit risk mitigation

As at 30 September 2018, under the IRB approach, the Banking Group had NZ$912 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2018, the Banking Group had an implied risk weighted exposure of NZ$6,027 million for operational risk and an operational risk capital requirement of NZ$482 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2018.

	Implied risk weighted exposure		Aggregate capital charge	
As at 30 September 2018	Period end NZ$m	Peak NZ$m	Period end NZ$m	Peak NZ$m
Interest rate risk	4,733	5,782	379	463
Foreign currency risk	42	152	3	12
Equity risk	1	1	-	-
	4,776		382	

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk. The Banking Group's internal capital allocation for these other material risks is NZ$389 million. (2017: NZ$421 million).

Information about Ultimate Parent Bank and Overseas Banking Group

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

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 Asia Pacific) 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 30 September 2018 and for the comparative prior periods.

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

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

Regulatory liquidity ratios

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

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. The minimum amount of core funding is currently set at 75% of a bank's total loans. The Banking Group must maintain its core funding ratio above 75% on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 18	30 Jun 18
Quarterly average 1-week mismatch ratio	5.3%	4.7%
Quarterly average 1-month mismatch ratio	5.1%	4.5%
Quarterly average core funding ratio	89.5%	89.6%

B5. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

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

The exposure information in the table below excludes exposures to:

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

	As at 30 Sep 18	Peak end of day over 6 months to 30 Sep 18
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	3	3
with a long-term credit rating of A- or A3 or above, or its equivalent	3	3
- 10% to less than 15% of CET1 capital	3	-
- 15% to less than 20% of CET1 capital	-	2
- 20% to less than 25% of CET1 capital	-	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1	2	2
with a long-term credit rating of A- or A3 or above, or its equivalent	2	2
- 10% to less than 15% of CET1 capital	1	1
- 15% to less than 20% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

REGISTERED BANK DISCLOSURES

B6. CREDIT EXPOSURES TO CONNECTED PERSONS

	Connected persons		Non-bank connected	
	Amount NZ$m	% of Tier 1 Capital	Amount NZ$m	% of Tier 1 Capital
As at 30 September 2018				
Gross amount, before netting	7,907	66.7%	-	0.0%
Amount netted	5,475	46.2%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	2,432	20.5%	-	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2018				
Gross amount, before netting	11,196	94.4%	-	0.0%
Amount netted	7,718	65.1%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	3,478	29.3%	-	0.0%

Credit exposures to connected persons

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

Peak end-of-day aggregate exposure

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

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2018 was 60%. No limit changes have occurred over the year to 30 September 2018. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier 1 capital that applies to the aggregate credit exposure to non-bank connected persons.

Additional requirements for aggregate credit exposure to connected persons

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

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

NZ$698 million of contingent exposures of the Banking Group to connected persons arose from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) as at 30 September 2018.

Aggregate amount of individual credit impairment allowances against credit exposures to connected persons

There were no individual credit impairment allowances provided against credit exposures to connected persons as at 30 September 2018.

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

Insurance business

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

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

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

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

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

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

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

The Banking Group markets and distributes life insurance products provided by OnePath.

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

Arrangements to ensure no adverse impacts arising from the above activities

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

REGISTERED BANK DISCLOSURES

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

Amounts represented by funds management and securitisation activities

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

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

Financial services provided to entities conducting the above activities

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

Assets purchased from entities conducting the above activities

Over the year ended 30 September 2018, any assets purchased by any member of the Banking Group from entities that conduct the activities in a), b) or c) above have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

The peak end-of day aggregate amount of funding provided to entities that provide services relating to the Banking Group's involvement in the above activities over the year ended 30 September 2018 was less than NZ$0.1 million (2017: less than NZ$0.1 million) which was 0.0% (2017: 0.0%) of the Banking Group's tier 1 capital and 0.0% (2017: 0.0%) of the total assets of the individual entity.

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

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

B8. RISK MANAGEMENT POLICIES

Information about risk

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

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

The key pillars of the Banking Group's risk management framework include:

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

The material risks facing per the Banking Group's RMS, and how these risks are managed are summarised below:

Key material risks

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

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

<table>
<tr><th>Risk Type</th><th>Description</th><th>Management of Risks</th></tr>
<tr><td>Market Risk</td><td>The risk to the Banking Group's earnings arising from:
• changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or
• from fluctuations in bond, commodity or equity prices.</td><td>Our risk management and control framework for Market Risk involves us quantifying the magnitude of market risk within the trading and balance sheet portfolios through independent risk measurement. First, we identify the range of possible outcomes, the likely timeframe, and the likelihood of the outcome occurring. Then we allocate an appropriate amount of capital to support these activities.</td></tr>
<tr><td>Operational Risk</td><td>The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational Risk:
• includes technology risk, cyber risk, legal risk and conduct risk, and damage arising from inadequate or failed internal processes, people and systems; but
• excludes Strategic Risk.</td><td>The Banking Group operates a three-lines-of-defence model to manage Operational Risk, with each line of defence having defined roles, responsibilities and escalation paths to support effective two-way communication and effective management of our operational risk. Also, we have ongoing review mechanisms to ensure our Operational Risk framework continues to meet organisational needs and regulatory requirements.</td></tr>
<tr><td>Reputation Risk</td><td>The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by:
• adverse perceptions of the Banking Group held by any of customers, the community, shareholders, investors, regulators, or rating agencies;
• conduct risk associated with the Banking Group's employees or contractors (or both); or
• the social or environmental (or both) impacts of our lending decisions.</td><td>We manage Reputation Risk by maintaining a positive and dynamic culture that:
• ensures we act with integrity; and
• enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society.

We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Reputation Risk.</td></tr>
<tr><td>Strategic Risk</td><td>The risk that the Banking Group's business strategy and strategic objectives may lead to an increase in other key Material Risks - for example: Credit Risk, Market Risk and Operational Risk.</td><td>We consider and manage Strategic Risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Any increase to our key Material Risks is managed in accordance with the risk management practices specified above.</td></tr>
</table>

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

Capital adequacy

Refer to Note 21 Capital Management for the disclosures required under NZ IAS 1 *Presentation of financial statements*.

Reviews of the Banking Group's risk management systems

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

B8. RISK MANAGEMENT POLICIES (continued)

Internal Audit Function of the Banking Group

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

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

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

The Audit Committee is also responsible for:

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

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

Measurement of impaired assets

Refer to Note 12 Provision for Credit Impairment and Note 15 Financial Risk Management for details of the Banking Group's approach to measurement of impaired assets. Further to this, impairment is assessed monthly, with individual allowances for credit impairment also updated monthly and collective allowances for credit impairment updated quarterly.

Credit risk mitigation

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

As an Advanced Internal Ratings Based (AIRB) bank, the Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

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

Additional information about credit risk

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

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

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

- Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.
- Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.
- Loss Given Default (LGD): An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value (LVR) bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

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

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

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

IRB Asset Class	Borrower Type	Rating Approach
Sovereign	Crown	IRB - Advanced
	RBNZ	IRB - Advanced
	Any other sovereign and its central bank	IRB - Advanced
Bank	Registered banks	IRB - Advanced
Corporate	Corporation, partnerships or proprietorships that do not fit any other asset classification	IRB - Advanced
	Corporate Small to Medium Enterprises ("SME") with turnover of less than NZ$50 million	IRB - Advanced
Retail Mortgages	Individuals' borrowings against residential property	IRB - Advanced
Other Retail	Other lending to individuals (including credit cards)	IRB - Advanced
	SME business borrowers	IRB - Advanced
Corporate sub-class - Specialised lending	Project finance	IRB - Slotting
	Income producing real estate	IRB - Slotting
Equity		IRB
Other assets	All other assets not falling within any of the above classes	IRB

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by Basel III	Standardised

Additional information about operational risk

Operational risk capital is modelled at a New Zealand geographic level and then distributed and adjusted for the business environment and internal controls down to the business units using the Risk Scenario Methodology. This methodology ensures that there is sufficient operational risk capital held as a buffer for rare and severe unexpected operational loss events that may impact the New Zealand business. The Methodology applies a combination of expert judgement, business unit risk profiles, audit findings, and internal and external loss events to derive a series of business specific Risk Scenarios that are applied to the capital model. The Risk Scenario approach

- assesses the level of the Bank's exposure to specified risk scenarios;
- assesses the scope and quality of the Bank's internal control environment, key operational processes and risk mitigants; and
- directly links the risk scenarios to operational risk capital.

The Banking Group's operating risk capital is calculated using the Ultimate Parent Bank's methodology, but with standalone New Zealand inputs to ensure there are no diversification benefits.

The Banking Group does not incorporate any insurance mitigation impact into its capital number. Accordingly, there are no insurance related questions contained within the Risk Scenario Methodology.

Controls surrounding credit risk rating systems

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

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

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

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

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

DIRECTORS' STATEMENT

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

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

Over the year ended 30 September 2018, after due enquiry, each Director believes that:

- ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period except as noted on page 65;
- Credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 15 November 2018.

Antony Carter

Shayne Elliott

David Hisco

Michelle Jablko

Rt Hon Sir John Key, GNZM AC

Mark Verbiest

Joan Withers

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE BANKING GROUP DISCLOSURE STATEMENT

OPINION

In our opinion, the accompanying consolidated financial statements of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) on pages 4 to 56:

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

In our opinion, the Registered Bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order) and is included in section, B2, B3, B5, B6, B7 and B8 of the Disclosure Statement:

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

We have audited the accompanying consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated statement of financial position as at 30 September 2018;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

BASIS FOR OPINION

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

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the Auditor's Responsibilities for the audit of the consolidated financial statements and registered bank disclosures in section B2, B3, B5, B6, B7 and B8 section of our report.

Our firm has also provided other services to the Banking Group in relation to review of regulatory returns, internal controls reports, prospectus assurance or reviews and agreed upon procedures engagements. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

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

The Key Audit Matter

The provision for credit impairment is a key audit matter as the Banking Group has significant credit risk exposure to a large number of counterparties across a wide range of lending and industries. The value of loans and advances on the balance sheet is significant and there is a high degree of complexity and judgement involved for the Banking Group in estimating individual and collective credit impairment provisions against these loans. These features resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions.

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

How the matter was addressed in our audit

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

Provisions against specific individual loans (individual provision)

- Testing the key controls over counterparty risk grading for wholesale loans (larger customer exposures that are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, the performance of annual loan assessments, and controls over the monitoring of counterparty credit quality. This included testing controls over the identification of exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors, and testing the timeliness of and the accuracy of counterparty risk assessments and risk grading against the requirements of the Banking Group's lending policies;
- Performing credit assessments of a sample of wholesale loans managed by the Banking Group's specialist workout and recovery team assessed as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions). We challenged the Banking Group's risk grading of the loan, their assessment of loan recoverability and the impact on the credit provision. To do this, we reviewed the information on the Banking Group's loan file, discussed the case with the loan officer and management, and performed our own assessment of recoverability. This involved using our understanding of relevant industries and the macroeconomic environment, and comparing assumptions of inputs used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices, publicly available audited financial statements, and comparable external valuations of collateral held; and
- Evaluating the Banking Group's oversight of retail loan portfolios (smaller customer exposures not monitored individually), with a focus on controls over delinquency statistics monitoring. We tested a sample of provisions held against different loan products, based on their delinquency profile, and challenged assumptions made in respect of expected recoveries, primarily from collateral held.

Provisions estimated across loan portfolios (collective provision)

- Testing the Banking Group's processes to validate the models used to calculate collective provisions, and evaluating the Banking Group's model methodologies against established market practices and criteria in the accounting standards;
- Testing the key controls within IT systems used to calculate the collective provision, specifically those relating to data management and the completeness and accuracy of data transfer from underlying source systems to the collective provision models;
- Testing the accuracy of key inputs into models by checking a sample of balances to the general ledger and risk ratings to source systems;
- Challenging the key assumptions in the models such as emergence periods, probability of default and loss given default for a sample of retail and wholesale portfolios. We compared modelled estimates against actual losses incurred by the Banking Group; and
- Re-performing the calculation of collective provisions, for a sample of retail and wholesale portfolios and using a KPMG-constructed calculation tool to determine the accuracy of model output.

We also challenged key assumptions in the components of the Banking Group's collective provision balance held above modelled provision estimates. This included:

- Evaluating inputs to the concentration risk and economic cycle provisions by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the requirement for other additional provisions by considering model or data deficiencies identified by the Banking Group's model validation processes; and
- Assessing the completeness of additional provisions by checking the consistency of risks identified in the portfolios to their inclusion in the Banking Group's assessment.

NZ IFRS 9 Financial Instruments

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

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

VALUATION OF FINANCIAL INSTRUMENTS

The Key Audit Matter

Financial instruments held at fair value on the Banking Group's balance sheet include available-for-sale assets, trading securities, derivative assets and liabilities, investments backing insurance contract liabilities, certain debt securities, and other assets and liabilities designated as measured at fair value through profit or loss.

INDEPENDENT AUDITOR'S REPORT

The instruments are mainly risk management products sold to customers and used by the Banking Group to manage its own interest rate and foreign exchange risk.

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

- Financial instruments held at fair value are significant (15% of assets and 7% of liabilities);
- The significant volume and range of products transacted, increases the risk of inconsistencies in transaction management processes that could lead to inaccurate valuation;
- Determining the fair value of trading securities and derivatives involves a significant level of judgement by the Banking Group, increasing the risk of error, and adding complexity to our audit. The level of judgement increases where internal models, as opposed to quoted market prices, are used to determine fair value of an instrument; and
- The valuation of certain derivatives held by the Banking Group is sensitive to inputs including credit risk, funding rates, probabilities of default and loss given default, and industry practice is evolving as to how the impact of both funding and credit risk is incorporated within the valuation of certain derivative instruments. This increased our audit effort in this area and necessitated the involvement of valuation specialists.

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

- Testing access rights and change management controls for key valuation systems;
- Testing interface controls, notably the completeness and accuracy of data transfers between transaction processing systems, key systems used to generate valuations and any related valuation adjustments, and the Banking Group's market risk management and finance systems to identify inconsistencies in transaction management and valuation processes across products;
- Testing the governance and approval controls such as management review and approval of the valuation models and approval of new products against policies and procedures;
- Testing the front office management review and approval of the daily financial instrument trading profit and loss reconciliations prepared by the Banking Group's independent product control function;
- Testing the management review and approval of model construction and validation, aimed at assessing the validity and robustness of underlying valuation models; and
- Testing the Banking Group's data validation controls, such as those over key inputs in generating the fair value to market data where fair values were determined by front office teams.

We tested the valuation of financial instruments with both observable and unobservable inputs. Our specific testing involved valuation specialists and included:

- Re-performing the valuation of 'level 1' and 'level 2' available for sale assets and trading securities, which are primarily government, semi-government and corporate debt securities, by comparing the observable inputs, including quoted prices, to independently sourced market data;
- Using independent models, re-calculating the valuation of a sample of derivative assets and liabilities where the fair value was determined using observable inputs. This included comparing a sample of observable inputs used in the Banking Group's derivative valuations to independently-sourced market data, such as interest rates, foreign exchange rates and volatilities;
- Where the fair value of derivatives and other financial assets and liabilities were determined using unobservable inputs ('level 3' instruments), challenging the Banking Group's valuation model by testing the key inputs used to comparable data in the market, including the use of proxy instruments and available alternatives. We compared the Banking Group's valuation methodology to industry practice and the criteria in the accounting standards; and
- Evaluating the appropriateness of the Banking Group's valuation methodology for derivative financial instruments, having regard to current and emerging derivative valuation practices across a range of peer institutions and against the required criteria in the accounting standards. We tested adjustments made to valuations, particularly funding and credit valuation adjustments on un-collateralised derivatives. In particular, for a sample of individual counterparties, we tested key inputs to the credit valuation adjustment calculation, including the probability of default, against observable market data. Where proxies were used, we assessed the proxy against available alternatives across a number of locations.

IT SYSTEMS AND CONTROLS

The Key Audit Matter

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of the Banking Group's financial position and performance. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Banking Group's IT controls. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

How the matter was addressed in our audit

We tested the control environment for key IT applications (systems) used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems. Our audit procedures included:

- Testing the governance controls used by the Banking Group's technology teams and third party suppliers to monitor system integrity, by checking matters impacting the operational integrity of core systems for escalation and action in accordance with the Banking Group's policies;
- Testing the access rights given to staff by checking them to approved records, and inspecting the reports over the granting and removal of access rights. We also looked for evidence of escalation of breaches;
- Testing preventative controls designed to enforce segregation of duties between users within particular systems;
- Testing the operating effectiveness of automated controls, principally relating to the automated calculation of financial transactions. We tested

the inputs used within automated calculations to source data and also tested the accuracy of the calculation logic for a sample of transactions within each identified control; and
- Testing the operating effectiveness of automated reconciliation controls, both between systems and intra-system. For a sample of identified breaks, in reconciliations, we checked that these were recorded on exception reports, and subsequently investigated and cleared by the Banking Group.

OTHER INFORMATION

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

Our opinion on the consolidated financial statements does not cover section B1 or the Supplementary Information relating to the Bank Financial Strength Dashboard and other information included on pages 89-92 (collectively referred to as 'other information') and we do not express any form of assurance conclusion thereon.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

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

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information, in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal controls to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B2, B3, B5, B6, B7 AND B8

Our objective is:

- to obtain reasonable assurance about whether the Disclosure Statement, including the consolidated financial statements prepared in accordance with Clause 24 of the Order, and registered bank disclosures in section B2, B3, B5, B6, B7 and B8, prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Based on our review, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy and Regulatory Liquidity Ratios, disclosed in section B4 of the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

We have reviewed the registered bank disclosures as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 2018. The registered bank disclosures that is required to be disclosed in accordance with Schedule 11 of the Order.

BASIS FOR CONCLUSION ON THE REGISTERED BANK DISCLOSURES IN SECTION B4

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors are responsible for the preparation of registered bank disclosures in section B4 that is required to be prepared and disclosed in accordance with Schedule 11 of the Order and described in section B4 to the Disclosure Statement.

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

Our responsibility is to express a conclusion on the registered bank disclosures in section B4 based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the registered bank disclosures in section B4 is, in all material respects, disclosed in accordance with Schedule 11 of the Order.

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

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

USE OF THE INDEPENDENT AUDITOR'S REPORT

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

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

For and on behalf of

KPMG
Auckland

15 November 2018

BANK FINANCIAL STRENGTH DASHBOARD

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

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

Dashboard

Other information

BANK FINANCIAL STRENGTH DASHBOARD

D1. CREDIT RATINGS

As at 30 September 2018	Credit rating
S&P Global	AA-
Fitch	AA-
Moody's	A1

D2. CAPITAL ADEQUACY

Capital ratios

As at 30 September 2018	
Total capital ratio	14.4%
Common equity tier 1 (CET1) capital ratio	11.1%
Tier 1 capital ratio	14.4%
Buffer ratio	6.4%
Total capital ratio regulatory minimum	8.0%

Capital

As at 30 September 2018	NZ$m
CET1 capital	12,809
CET1 deductions	(3,728)
Net CET1 capital	9,081
Total additional tier 1 capital	2,776
Total tier 1 capital	11,857
Total capital	11,857

Risk weighted assets

		Classification differences			
As at 30 September 2018	Disclosure Statement NZ$m	Default exposures NZ$m	Credit valuation adjustments NZ$m	Exposure categories NZ$m	Dashboard NZ$m
Sovereign / quasi-sovereign	170	-	(46)	-	124
Public sector entities	-	-	(325)	669	344
Registered banks	3,112	-	(576)	(669)	1,867
Corporates	27,103	(658)	(892)	10,724	36,277
Retail / Residential mortgages	16,998	(42)	-	-	16,956
Other retail	8,705	(42)	-	(8,663)	-
Specialised lending exposures subject to slotting approach	10,783	-	(59)	(10,724)	-
Exposures subject to standardised approach	528	-	-	(528)	-
Problem loans	-	742	-	-	742
Equity holdings	28	-	-	-	28
Credit risk supervisory adjustment	-	-	-	2,325	2,325
All other assets	1,592	-	1,898	9,191	12,681
Credit risk	69,019	-	-	2,325	71,344
Market risk	4,776	-	-	-	4,776
Operational risk	6,027	-	-	-	6,027
Agri business supervisory adjustment	2,325	-	-	(2,325)	-
Total risk weighted assets	82,147	-	-	-	82,147

D3. ASSET QUALITY

As at 30 September 2018	Housing NZ$m	Consumer NZ$m	Business NZ$m	Agriculture NZ$m	All other NZ$m	Total NZ$m
Total loans	75,847	3,574	28,821	17,427	1,389	127,058
Impaired loans	35	11	76	154	45	321
Loans 90 days past due but not impaired	151	24	27	3	-	205
Total non-performing loans	186	35	103	157	45	526
Non-performing loans ratio (%)	0.25%	0.98%	0.36%	0.90%	3.24%	0.41%
Individual provisions	8	6	45	35	36	130
Collective provisions	72	64	92	43	111	382
On-balance sheet residential mortgage exposures with LVRs that:						
Exceeds 80% and not 90%						3.4%
Exceeds 90%						1.7%

A reconciliation of the amounts in this table to the financial statements is included in the Other Information on page 92.

D4. PROFITABILITY / PERFORMANCE

	Financial statements		Classification differences	
	For the 12 months ended 30 September 2018	Less: For the 9 months ended 30 June 2018	Funds management income and other commissions	Dashboard
	NZ$m	NZ$m	NZ$m	NZ$m
Interest income	6,390	(4,767)	-	1,623
Interest expense	3,240	(2,415)	-	825
Net interest income	3,150	(2,352)	-	798
Gains/losses on trading and hedging	250	(158)	-	92
Fee and commission income	394	(300)	69	163
All other income	482	(368)	(69)	45
Operating expenses	1,517	(1,121)	-	396
Impaired asset expense	55	(78)	-	(23)
Profit before tax	2,704	(1,979)	-	725
Tax expense	751	(547)	-	204
Profit after tax	1,953	(1,432)	-	521
Return on assets (%)				1.3%
Return on equity (%)				15.6%
Net interest margin (%)				2.2%

D5. FINANCIAL POSITION

		Classification differences			
As at 30 September 2018	Financial statements NZ$m	Other bank deposits and other assets NZ$m	Securities purchased under agreements to re-sell NZ$m	Subordinated debt issued to NZ Branch NZ$m	Dashboard NZ$m
Cash and bank deposits[1]	4,119	40	(136)	-	4,023
Debt securities held[2]	14,653	(78)	-	-	14,575
Net loans and advances	126,466	-	-	-	126,466
Derivatives in an asset position	8,086	-	-	-	8,086
All other assets	5,688	38	136	-	5,862
Total assets	159,012	-	-	-	159,012
Deposits	104,055	-	-	-	104,055
Debt securities issued[3]	28,531	-	-	(1,941)	26,590
Other borrowings[4]	1,402	1,336	-	1,941	4,679
Derivatives in a liability position	8,095	-	-	-	8,095
All other liabilities	3,820	(1,336)	-	-	2,484
Total liabilities	145,903	-	-	-	145,903
Equity	13,109	-	-	-	13,109

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

D6. LIQUIDITY

3 months to 30 September 2018	
Quarterly average core funding ratio	89.5%
Quarterly average 1-month mismatch ratio	5.1%
Quarterly average 1-week mismatch ratio	5.3%

D7. LARGE EXPOSURES

As at 30 September 2018	
Top 5 credit exposures to non-bank counterparties as a ratio of CET1 capital	51.3%
Credit exposures to non-bank counterparties that are greater than 10% of CET1 capital	2
Top 5 credit exposures to banks as a ratio of CET1 capital	48.4%
Credit exposures to banks that are greater than 10% of CET1 capital	3

OTHER INFORMATION

Reconciliation of total loans by industry and sector

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

Housing loans and residential mortgage definitions

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

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

As at 30 September 2018	Note	Housing NZ$m	Consumer NZ$m	Business NZ$m	Agriculture NZ$m	All other[1] NZ$m	Total NZ$m
Total loans per Balance Sheet	11	78,395	n/a	n/a	n/a	48,509	126,904
Fair value hedge adjustment		(10)	-	-	-	10	-
Business loans secured by residential property		(2,538)	-	-	317	2,221	-
Residential investor property		(21,101)	-	-	49	21,052	-
Other household and agriculture industry loans		-	3,574	-	17,478	(21,052)	-
Concentration of loans by industry[2]	15	54,746	3,574	-	17,844	50,740	126,904
Fair value hedge adjustments		-	-	-	-	(10)	(10)
Unearned income on finance leases		-	-	-	-	(204)	(204)
Deposit components of overdraft product		-	-	-	-	368	368
Residential investor property		21,101	-	-	(49)	(21,052)	-
Business lending		-	-	28,462	(51)	(28,411)	-
Loans by purpose (RBNZ series S31)		75,847	3,574	28,462	17,744	1,431	127,058
Other business loans secured by residential property		-	-	359	(317)	(42)	-
Total loans per Dashboard	D3	75,847	3,574	28,821	17,427	1,389	127,058

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

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