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

FOR THE YEAR ENDED 30 SEPTEMBER 2021
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ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2021

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 2021 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
10 November 2021

Antonia Watson
Executive Director
10 November 2021

GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

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

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

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

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

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

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

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

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

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

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

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

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FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2021 NZ$m	2020 NZ$m
Interest income		4,600	5,568
Interest expense		(1,176)	(2,306)
Net interest income	2	3,424	3,262
Other operating income	2	765	807
Operating income		4,189	4,069
Operating expenses	3	(1,621)	(1,752)
Profit before credit impairment and income tax		2,568	2,317
Credit impairment release / (charge)	12	114	(403)
Profit before income tax		2,682	1,914
Income tax expense	4	(743)	(541)
Profit for the year		1,939	1,373

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2021 NZ$m	2020 NZ$m
Profit for the year	1,939	1,373
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain / (loss) on defined benefit schemes	56	(6)
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised gains / (losses) recognised directly in equity	(75)	122
Realised losses transferred to the income statement	8	12
Income tax attributable to the above items	3	(36)
Other comprehensive income after tax	(8)	92
Total comprehensive income for the year	1,931	1,465

The notes appearing on pages 8 to 69 form an integral part of these financial statements

BALANCE SHEET

As at 30 September	Note	2021 NZ$m	2020 NZ$m
Assets			
Cash and cash equivalents	7	**7,844**	8,248
Settlement balances receivable		**237**	378
Collateral paid		**537**	1,394
Trading securities	8	**9,585**	12,797
Derivative financial instruments	9	**9,304**	9,702
Investment securities	10	**11,926**	9,893
Net loans and advances	11	**140,756**	132,698
Deferred tax assets	4	**390**	327
Goodwill and other intangible assets	19	**3,091**	3,092
Premises and equipment		**509**	590
Other assets		**590**	625
Total assets		**184,769**	179,744
Liabilities			
Settlement balances payable		**2,704**	2,950
Collateral received		**738**	1,275
Deposits and other borrowings	13	**133,139**	125,061
Derivative financial instruments	9	**7,727**	8,252
Current tax liabilities		**170**	251
Payables and other liabilities		**1,464**	1,115
Employee entitlements		**138**	143
Other provisions	20	**295**	389
Debt issuances	14	**21,502**	24,439
Total liabilities		**167,877**	163,875
Net assets		**16,892**	15,869
Equity			
Share capital	21	**11,888**	11,888
Reserves		**70**	118
Retained earnings		**4,934**	3,863
Total equity		**16,892**	15,869

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
10 November 2021

Antonia Watson
Executive Director
10 November 2021

The notes appearing on pages 8 to 69 form an integral part of these financial statements

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	2021 NZ$m	2020 NZ$m
Profit after income tax	1,939	1,373
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation and amortisation	124	158
Loss on sale and impairment of premises and equipment	7	5
Goodwill impairment	-	28
Net derivatives/foreign exchange adjustment	(940)	(1,044)
Proceeds from divestments net of intangibles disposed of, classified as investing activities	-	(533)
Other non-cash movements	151	20
Net (increase)/decrease in operating assets:		
Collateral paid	857	930
Trading securities	3,212	(3,855)
Net loans and advances	(8,058)	(173)
Other assets	113	(372)
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings (excluding items included in financing activities)	6,778	11,634
Settlement balances payable	(246)	1,343
Collateral received	(537)	284
Other liabilities	205	(112)
Total adjustments	1,666	8,313
Net cash flows from operating activities[1]	3,605	9,686
Cash flows from investing activities		
Investment securities:		
Purchases	(5,528)	(5,569)
Proceeds from sale or maturity	2,833	2,790
Proceeds from divestments	-	659
Other assets	(39)	(64)
Net cash flows from investing activities	(2,734)	(2,184)
Cash flows from financing activities		
Deposits and other borrowings[2]	1,300	-
Debt issuances[3]		
Issue proceeds	3,278	2,327
Redemptions	(4,899)	(3,885)
Repayment of lease liabilities	(46)	(50)
Dividends paid	(908)	(9)
Net cash flows from financing activities	(1,275)	(1,617)
Net change in cash and cash equivalents	(404)	5,885
Cash and cash equivalents at beginning of year	8,248	2,363
Cash and cash equivalents at end of year	7,844	8,248

1 Net cash provided by operating activities includes income taxes paid of NZ$884 million (2020: NZ$691 million).

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

3 Movement in debt issuances (Note 14 Debt Issuances) also includes an NZ$958 million decrease (2020: NZ$557 million decrease) from the effect of foreign exchange rates, a NZ$398 million decrease (2020: NZ$286 million increase) from changes in fair value hedging instruments and a NZ$40 million increase (2020: NZ$61 million increase) from other changes.

The notes appearing on pages 8 to 69 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Investment securities revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2019		11,888	(6)	27	2,521	14,430
Impact on transition to NZ IFRS 16 *Leases*		-	-	-	(17)	(17)
As at 1 October 2019 (adjusted)		11,888	(6)	27	2,504	14,413
Profit or loss		-	-	-	1,373	1,373
Unrealised gains recognised directly in equity		-	19	103	-	122
Realised losses transferred to the income statement		-	-	12	-	12
Actuarial loss on defined benefit schemes		-	-	-	(6)	(6)
Income tax credit / (expense) on items recognised directly in equity		-	(5)	(32)	1	(36)
Total comprehensive income for the year		-	14	83	1,368	1,465
Transactions with Immediate Parent Company in its capacity as owner:						
Preference dividends paid	21	-	-	-	(9)	(9)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(9)	(9)
As at 30 September 2020		11,888	8	110	3,863	15,869
As at 1 October 2020		11,888	8	110	3,863	15,869
Profit or loss		-	-	-	1,939	1,939
Unrealised gains / (losses) recognised directly in equity		-	77	(152)	-	(75)
Realised losses / (gains) transferred to the income statement		-	(2)	10	-	8
Actuarial gain on defined benefit schemes		-	-	-	56	56
Income tax credit / (expense) on items recognised directly in equity		-	(21)	40	(16)	3
Total comprehensive income for the year		-	54	(102)	1,979	1,931
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(900)	(900)
Preference dividends paid	21	-	-	-	(8)	(8)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(908)	(908)
As at 30 September 2021		11,888	62	8	4,934	16,892

The notes appearing on pages 8 to 69 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 2021. 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 10 November 2021, the Directors resolved to authorise the issue of these financial statements.

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

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

This section of the financial statements:

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

BASIS OF PREPARATION

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

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

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

BASIS OF MEASUREMENT

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

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

BASIS OF CONSOLIDATION

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

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

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

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

FIDUCIARY ACTIVITIES

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

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its ongoing effects on the global economy have continued to impact our customers, operations and the Banking Group's performance. Governments have responded at unprecedented levels to protect the health of the population, local economies and livelihoods. The course of the pandemic and vaccination levels have varied across the globe and government responses have differed in their extent and timing. Economies are reopening at different rates whilst the risk of subsequent waves of infection remain. Thus there remains an elevated level of estimation uncertainty involved in the preparation of these financial statements including:

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers in the ongoing management of the virus;
- the impact and expected response of the economy (and forecasts of key economic factors including GDP, employment and house prices). This includes the response of capital markets, and the impacts on credit quality, liquidity, unemployment, consumer spending, as well as specific sector impacts; and
- the efficacy of vaccines against variants of the virus, and the effectiveness of government and central bank measures to support businesses and consumers through this disruption.

The Banking Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 September 2021 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are outside the control of the Banking Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and recoverable amounts of non-financial assets.

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

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs), such as the London Interbank Offered Rate (LIBOR), have played a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and in the valuation of financial instruments. Uncertainty surrounding the integrity of IBOR rates has led regulators and industry to transition away from IBOR to alternative risk-free benchmark reference rates (RFRs).

As had been anticipated, in March 2021 the UK Financial Conduct Authority announced the dates on which IBORs will cease, after which representative IBOR rates will no longer be available. The cessation of the majority of IBOR rates will occur on 31 December 2021, notably for the Pound Sterling (GBP), Euro (EUR), Swiss Franc (CHF) and Japanese Yen (JPY) settings in their entirety, and the US Dollar (USD) 1-week and 2-month LIBOR settings. The Banking Group has ceased issuing new products referencing these rates. Other USD LIBOR settings will cease by 30 June 2023.

The Banking Group has exposure to IBORs through its loan and derivative transactions with customers, issuance of debt and its asset and liability management activities.

Other significant interest rate benchmarks applicable to the Banking Group's banking activities with customers and our own risk management activities include the Euro Interbank Offered Rate (Euribor), the AUD Bank Bill Swap Rate (BBSW) and the NZ Bank Bill Market Rate (BKBM). These are not impacted by IBOR reform and these benchmark rates are expected to remain for the foreseeable future.

Banking Group approach to interest rate benchmark reform

The development of new RFR products and the migration of the Banking Group's existing contracts that reference IBORs to RFRs exposes the Banking Group to financial, compliance, legal and operational risks. The Banking Group is managing the transition to RFRs and these risks through a Benchmark Transition Programme (the Programme), which is overseen by a formal Steering Committee of senior executives.

The IBOR reforms have a wide-ranging impact for the Banking Group and our customers, given the fundamental differences between IBORs and RFRs. RFRs are available both as backward-looking in arrears rates and, for some currencies, as forward-looking term rates. The key difference between IBORs and RFRs is that IBOR rates include a term and bank credit risk premium, whereas RFRs do not. As a result of these differences, adjustments are required to an RFR to ensure contracts referencing an IBOR rate, transition on an economically comparable basis.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

The Programme includes the identification of impacted IBOR contracts across the Banking Group, actions necessary to develop product capability and transition existing contracts to RFRs. This includes the assessment and mitigation of financial, legal and conduct risks arising from changes to pricing and valuation (largely interest rate risk), compliance risks arising from any potential non-compliance with relevant regulatory requirements, legal risks arising from changes to customer contracts, and operational risks including changes to IT systems, controls and reporting infrastructure. In undertaking these changes, the Banking Group is actively engaging RBNZ in respect of our IBOR transition readiness.

To date, the Banking Group has commenced transitioning existing IBOR derivative trades to reference RFR benchmark rates and has established processes to offer loans referencing RFR benchmark rates. The Banking Group continues to extend and deliver its RFR product suite and pricing options to be able support our customers in line with regulatory best practice guidelines.

The Programme also includes the management of the impact on customers. The Banking Group is well-progressed in ensuring all customer transition plans are finalised ahead of IBOR cessation dates, with the significant majority of our derivative counterparties with exposures referencing IBORs agreeing to amend existing contracts by adhering to the industry developed ISDA 2020 IBOR Fallbacks Protocol (ISDA Protocol) to facilitate a standardised and orderly transition to RFRs. The Banking Group has also adhered to the ISDA Protocol.

In relation to our loan and transaction banking customers, the Banking Group has commenced a proactive outreach programme to ensure an orderly and well-managed migration to RFRs. The Banking Group's customer arrangements reference USD LIBOR, which will continue to be published for the most widely used settings until 30 June 2023.

Changes to accounting standards

In 2018, given the uncertainty with regards to the longer term viability of IBORs, the International Accounting Standards Board (IASB) commenced a review of the financial reporting implications of the reforms, given the significant potential consequences for financial instrument accounting.

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

In September 2020, the XRB issued *Interest Rate Benchmark Reform - Phase 2* (the Standard), which the Banking Group early adopted from 1 April 2021. This Standard addresses issues that may affect the Banking Group at the point of transition from an existing IBOR to a RFR, including the effects of changes to contractual cash flows or hedging relationships. The Standard includes amendments in respect of:

- Modification of a financial asset or a financial liability measured at amortised cost: IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Banking Group. The Standard provides a practical expedient to account for a change in the basis for determining the contractual cash flows by updating the effective interest rate. As a result, no immediate gain or loss is recognised. This applies only when the change is a direct consequence of IBOR reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis;
- Additional relief for hedging relationships: the Standard amends a number of existing hedge accounting requirements such that the Banking Group will not have to discontinue any hedge accounting relationships solely because of changes made because of the reform if all other hedge accounting criteria are met; and
- Additional disclosure requirements: the Standard amended NZ IFRS 7 *Financial Instruments: Disclosures*, which requires additional qualitative and quantitative disclosures in relation to the impact of IBOR reforms on the Banking Group. These disclosures are contained within this note.

Financial impacts of IBOR reform

The following sets out the Banking Group's impact assessment in relation to IBOR reforms as at 30 September 2021:

i) Impact for the year ended 30 September 2021

For the year ended 30 September 2021, the net impact of the reforms recognised in the Banking Group's net profit after tax is not material. The impacts recognised in the current year include:

a) changes in the fair values of certain derivative financial instruments for which it is known at balance sheet date – as a result of regulatory pronouncements confirming IBOR cessation – that the fair valuation will incorporate a change to an RFR at a future date; and

b) revenue from a small number of customers in the Institutional segment who have transitioned to derivative contracts referencing an RFR by 30 September.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ii) Exposures subject to benchmark reform as at 30 September 2021

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

	Financial instruments yet to transition to RFRs	
	US dollar LIBOR	Others[1]
As at 30 September 2021	NZ$m	NZ$m
Derivative asset (notional value)[3]	62,348	2,237
Derivative liability (notional value)[3]	40,847	808
Loan commitments[2,4]	198	-

1 Comprises financial instruments referencing other significant benchmark rates subject to cessation yet to transition to alternative benchmarks.
2 Excludes Expected Credit Losses (ECL).
3 For cross-currency swaps, where both the receive and pay legs are in currencies subject to reform, the Banking Group discloses the New Zealand dollar-equivalent notional amounts for both. Where one leg of a swap is subject to reform, the Banking Group discloses the notional amount of the receive leg.
4 For multi-currency IBOR referenced facilities, the undrawn balance has been allocated to the base currency of the facility. In the event the base currency interest rate is not subject to cessation, but can be drawn in a currency subject to cessation, the allocation is based on most likely currency of drawdown.

iii) Hedge accounting exposures subject to IBOR reform

The Banking Group has hedge-accounted relationships referencing IBORs, with the most significant being US dollar LIBOR, primarily due to the Banking Group's fixed rate debt issuances denominated in US dollars that are designated in fair value hedge accounting relationships.

The table below details the carrying values of the Banking Group's US dollar exposures designated in hedge accounting relationships referencing LIBOR that will be impacted by reform The nominal value of the associated hedging instruments is also included:

	As at 30 September 2021
	US dollar LIBOR exposures
Hedged items	NZ$m
Debt issuances	7,458

Hedging Instruments	Notional designated up to 30 June 2023 NZ$m	Notional designated beyond 30 June 2023 NZ$m	Total notional amount NZ$m
Fair value hedges	2,109	5,162	7,271

As at 30 September 2021, the Banking Group also has Swiss franc exposures designated in hedge accounting relationships of NZ$973 million subject to IBOR reform.

Other hedge accounting relationships referencing the Euribor, BBSW and BKBM are not impacted by IBOR reform as these benchmark rates are expected to remain for the foreseeable future.

iv) Future development

As the most widely referenced US dollar LIBOR benchmark tenors will continue to be published up to 30 June 2023, the Banking Group's transition programme supporting our customers and the Banking Group's own risk management activities will continue beyond 2021.

REVISED CONCEPTUAL FRAMEWORK

On 1 October 2020, the Banking Group adopted New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 *Conceptual Framework*). The new framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally, it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The adoption of the conceptual framework did not have a material impact on the Banking Group.

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

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 2021, and have not been applied by the Banking Group in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

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

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

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

2. OPERATING INCOME

	2021 NZ$m	2020 NZ$m
Net interest income		
Interest income by type of financial asset		
Financial assets at amortised cost	4,355	5,277
Trading securities	106	148
Investment securities	139	143
Interest income	4,600	5,568
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(1,148)	(2,272)
Financial liabilities designated at fair value through profit or loss	(28)	(34)
Interest expense	(1,176)	(2,306)
Net interest income	3,424	3,262
Other operating income		
(i) Fee and commission income		
Lending fees	30	33
Non-lending fees	678	673
Commissions	35	57
Funds management income	271	258
Fee and commission income	1,014	1,021
Fee and commission expense	(459)	(463)
Net fee and commission income	555	558
(ii) Other income		
Net foreign exchange earnings and other financial instruments income[1]	179	261
Sale of legacy insurance portfolio[2]	14	-
Sale of UDC Finance Limited (UDC)	-	(32)
Other	17	20
Other income	210	249
Other operating income	765	807
Operating income	4,189	4,069

1 Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cashflow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit or loss.
2 The Bank sold and transferred its rights and obligations relating to servicing a legacy portfolio of insurance underwritten by Tower Limited (Tower) to Tower in March 2021.

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest income and expense

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

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

OTHER OPERATING INCOME

Fee and commission income

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

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

Net foreign exchange earnings and other financial instruments income

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

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

SHARE OF ASSOCIATES' PROFIT / (LOSS)

The equity method is applied to accounting for associates. 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

	2021 NZ$m	2020 NZ$m
Personnel		
Salaries and related costs	891	886
Superannuation costs	29	29
Other	15	73
Personnel	935	988
Premises		
Rent	18	21
Depreciation	79	96
Other	37	40
Premises	134	157
Technology		
Depreciation and amortisation	45	62
Subscription licences and outsourced services	140	138
Other	36	39
Technology	221	239
Other		
Advertising and public relations	43	43
Professional fees	58	58
Freight, stationery, postage and communication	42	41
Goodwill impairment	-	28
Charges from Ultimate Parent Bank	120	97
Other	68	101
Other	331	368
Operating expenses	1,621	1,752

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

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:

	2021 NZ$m	2020 NZ$m
Profit before income tax	2,682	1,914
Prima facie income tax expense at 28%	751	536
Tax effect of permanent differences:		
Sale of legacy insurance portfolio	(4)	-
Sale of UDC	-	9
Tax provisions no longer required	(3)	(3)
Non-assessable income and non-deductible expenditure	3	2
Subtotal	747	544
Income tax over provided in previous years	(4)	(3)
Income tax expense	743	541
Current tax expense	770	821
Adjustments recognised in the current year in relation to the current tax of prior years	(4)	(3)
Deferred tax income relating to the origination and reversal of temporary differences	(23)	(277)
Income tax expense	743	541
Effective tax rate	27.7%	28.3%

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

We account for deferred tax using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, we recognise a deferred tax asset, or liability, on the balance sheet. We measure deferred taxes at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or 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 2020		
No dividends were paid during the year ended 30 September 2020	-	-
Financial Year 2021		
Dividend paid in June 2021	14.2 cents	900
Dividends paid during the year ended 30 September 2021		900

IMPUTATION CREDIT ACCOUNT

	2021 NZ$m	2020 NZ$m
Imputation credits available	7,221	6,443

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

DESCRIPTION OF SEGMENTS

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

During the year ended 30 September 2021, the Banking Group reorganised into the following business segments: Personal (including Personal Banking and Funds Management), Business, and Institutional. These are intended to better align the Banking Group's internal business with the needs of its primary customer groups, home owners and business owners. These changes were implemented from August 2021 and have been accounted for prospectively. There were net movements of NZ$870 million of loans and advances and NZ$4,750 million of customer deposits from Retail to Business, and NZ$31 million of goodwill from Commercial to Personal. The reorganisation is expected to be completed in the first half of 2022. Comparative amounts have not been restated because the estimated impact on the financial performance and financial position of the affected segments, Personal and Business, is not considered material.

Personal (previously Retail)

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

Business (previously Commercial)

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

Institutional

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

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

Other

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

6. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

	Personal		Business[1]		Institutional		Other		Total	
For the year ended 30 September	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
Net interest income	1,990	1,812	1,064	1,073	333	345	37	32	3,424	3,262
Net fee and commission income										
- Lending fees	9	15	3	1	18	17	-	-	30	33
- Non-lending fees	612	610	10	10	56	53	-	-	678	673
- Commissions	34	57	-	-	1	-	-	-	35	57
- Funds management income	271	258	-	-	-	-	-	-	271	258
- Fee and commission expense	(459)	(463)	-	-	-	-	-	-	(459)	(463)
Net fee and commission income	467	477	13	11	75	70	-	-	555	558
Other income	19	13	-	-	160	308	31	(72)	210	249
Other operating income	486	490	13	11	235	378	31	(72)	765	807
Operating income	2,476	2,302	1,077	1,084	568	723	68	(40)	4,189	4,069
Operating expenses	(1,147)	(1,214)	(262)	(303)	(185)	(198)	(27)	(37)	(1,621)	(1,752)
Profit before credit impairment and income tax	1,329	1,088	815	781	383	525	41	(77)	2,568	2,317
Credit impairment release / (charge)	18	(145)	62	(223)	34	(35)	-	-	114	(403)
Profit before income tax	1,347	943	877	558	417	490	41	(77)	2,682	1,914
Income tax expense	(373)	(273)	(246)	(156)	(117)	(138)	(7)	26	(743)	(541)
Profit after income tax	974	670	631	402	300	352	34	(51)	1,939	1,373
Financial position										
Goodwill	1,042	1,011	895	926	1,069	1,069	-	-	3,006	3,006
Net loans and advances	95,061	86,362	39,158	39,333	6,535	6,993	2	10	140,756	132,698
Customer deposits	78,592	79,867	23,744	18,437	22,793	22,559	-	-	125,129	120,863

1 UDC was part of the Business segment until the sale on 1 September 2020.

OTHER SEGMENT

The Other segment profit after income tax comprises:

Item	2021 NZ$m	2020 NZ$m
Personal and Business central functions	(2)	4
Group centre[1,2]	20	(33)
Economic hedges[2]	16	(22)
Total	34	(51)

1 Group centre's other income for the year ended 30 September 2020 includes the NZ$32 million loss on sale of UDC (Note 2 Operating Income).
2 Amounts for the year ended 30 September 2020 include the transfer of NZ$23 million of accumulated after tax unrealised losses on economic hedges of UDC loans and advances to Group centre. These losses were transferred upon the sale of UDC.

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL ASSETS

CLASSIFICATION AND MEASUREMENT

Financial assets - general

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

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

The resultant financial asset classifications are as follows:

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

Fair value option for financial assets

A financial asset may be irrevocably designated on initial recognition:

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

7. CASH AND CASH EQUIVALENTS

	2021 NZ$m	2020 NZ$m
Coins, notes and cash at bank	163	187
Securities purchased under agreements to resell in less than 3 months	610	782
Balances with central banks	6,697	7,108
Settlement balances receivable within 3 months	374	171
Cash and cash equivalents	7,844	8,248

8. TRADING SECURITIES

	2021 NZ$m	2020 NZ$m
Government securities	7,985	11,251
Corporate and financial institution securities	1,600	1,546
Trading securities	9,585	12,797

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 2021 NZ$m	Liabilities 2021 NZ$m	Assets 2020 NZ$m	Liabilities 2020 NZ$m
Derivative financial instruments - held for trading	8,504	(7,001)	8,423	(6,887)
Derivative financial instruments - designated in hedging relationships	800	(726)	1,279	(1,365)
Derivative financial instruments	**9,304**	**(7,727)**	9,702	(8,252)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

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

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

TYPES

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

Forwards	A contract documenting the rate of interest, or the currency exchange rate, to be paid or received on a notional principal amount at a future date.
Futures	An exchange traded contract in which the parties agree to buy or sell an asset in the future for a price agreed on the transaction date, with a net settlement in cash paid on the future date without physical delivery of the asset.
Swaps	A contract in which 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	Risk of default by customer or third parties.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

In August 2021, the Banking Group amended the terms of its legal agreements with one of its central clearing counterparties giving effect to this form of legal settlement. As a result of this change, collateral paid and received by the Banking Group under these agreements is no longer separately recognised, instead settling the Banking Group's outstanding derivative exposures and reducing the associated carrying values of the derivative asset and liability balances. The impact of this change as at 30 September 2021 is a reduction in derivative assets of NZ$3.9 billion and derivative liabilities of NZ$4.1 billion, and a reduction in net collateral paid of NZ$0.2 billion.

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 2021 NZ$m	Liabilities 2021 NZ$m	Assets 2020 NZ$m	Liabilities 2020 NZ$m
Interest rate contracts				
Forward rate agreements	1	(1)	7	(8)
Futures contracts	19	(5)	8	(4)
Swap agreements	4,465	(3,368)	5,926	(3,714)
Options purchased	1	-	3	(2)
Total	4,486	(3,374)	5,944	(3,728)
Foreign exchange contracts				
Spot and forward contracts	2,217	(1,862)	1,009	(955)
Swap agreements	1,762	(1,716)	1,432	(2,155)
Options purchased	24	(2)	26	-
Options sold	2	(23)	-	(27)
Total	4,005	(3,603)	2,467	(3,137)
Commodity contracts and credit default swaps	13	(24)	12	(22)
Derivative financial instruments - held for trading	8,504	(7,001)	8,423	(6,887)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group uses two types of hedge accounting relationships:

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

Under the policy choice provided by NZ IFRS 9 *Financial Instruments*, the Banking Group has continued to apply the hedge accounting requirements of NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	2021			2020		
	Nominal amount NZ$m	Assets NZ$m	Liabilities NZ$m	Nominal amount NZ$m	Assets NZ$m	Liabilities NZ$m
Fair value hedges						
Interest rate swap agreements	28,024	572	(512)	27,905	644	(818)
Cash flow hedges						
Interest rate swap agreements	27,820	228	(214)	41,191	635	(547)
Derivative financial instruments - designated in hedging relationships	55,844	800	(726)	69,096	1,279	(1,365)

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

Nominal amount	Average interest rate	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
As at 30 September 2021						
Fair value hedges						
Interest rate	1.47%	247	3,556	13,718	10,503	28,024
Cash flow hedges						
Interest rate	1.51%	2,585	5,226	18,981	1,028	27,820
As at 30 September 2020						
Fair value hedges						
Interest rate	1.54%	79	3,196	16,221	8,409	27,905
Cash flow hedges						
Interest rate	1.83%	5,195	12,890	21,477	1,629	41,191

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

	Ineffectiveness						Amount reclassified from the cash flow hedge reserve to profit and loss	
	Change in value of hedging instrument[2]		Change in value of hedged item		Hedge ineffectiveness recognised in profit and loss			
	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
Fair value hedges[1]								
Interest rate	295	217	(289)	(215)	6	2	-	-
Cash flow hedges[1]								
Interest rate	(153)	103	152	(103)	(1)	-	10	12

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

Hedge ineffectiveness recognised is classified within other operating income. Reclassification adjustments to the statement of comprehensive income are recognised within net interest income.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Balance sheet presentation	Hedged risk	Carrying amount Assets NZ$m	Carrying amount Liabilities NZ$m	Accumulated fair value hedge adjustments on the hedged item Assets NZ$m	Accumulated fair value hedge adjustments on the hedged item Liabilities NZ$m
As at 30 September 2021						
Fixed rate loans and advances	Net loans and advances	Interest rate	-	-	-	-
Fixed rate debt issuances	Debt issuances	Interest rate	-	(16,307)	-	(245)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	11,915	-	(361)	-
Total			11,915	(16,307)	(361)	(245)
As at 30 September 2020						
Fixed rate loans and advances	Net loans and advances	Interest rate	1,542	-	10	-
Fixed rate debt issuances	Debt issuances	Interest rate	-	(18,029)	-	(643)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	9,679	-	322	-
Total			11,221	(18,029)	332	(643)

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

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the balance sheet is NZ$2 million (2020: NZ$11 million).

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

	Hedged risk	Continuing hedges 2021 NZ$m	Continuing hedges 2020 NZ$m	Discontinued hedges 2021 NZ$m	Discontinued hedges 2020 NZ$m
Floating rate loans and advances	Interest rate	48	577	(1)	-
Floating rate customer deposits	Interest rate	(36)	(421)	2	(4)

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

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired. With respect to derivatives cleared through a central clearing counterparty or exchange, derivative assets or liabilities may be derecognised in accordance with the principle above when collateral is settled, depending on the legal arrangements in place for each instrument.
Impact on the income statement	The recognition of gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the table on page 21 for profit or loss treatment for each hedge type. Sources of hedge ineffectiveness may arise from differences in the interest rate reference rate, margins, or rate set differences and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
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. INVESTMENT SECURITIES

	2021 NZ$m	2020 NZ$m
Investment securities measured at fair value through other comprehensive income		
Debt securities	11,925	9,892
Equity securities	1	1
Total	11,926	9,893

As at 30 September 2021	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	No maturity NZ$m	Total NZ$m
Government securities	272	363	7,704	3,171	-	11,510
Corporate and financial institution securities	2	123	290	-	-	415
Equity securities	-	-	-	-	1	1
Total	274	486	7,994	3,171	1	11,926
As at 30 September 2020						
Government securities	1,021	641	6,662	1,168	-	9,492
Corporate and financial institution securities	3	113	284	-	-	400
Equity securities	-	-	-	-	1	1
Total	1,024	754	6,946	1,168	1	9,893

RECOGNITION AND MEASUREMENT

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

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

Assets disclosed as investment securities are subject to the general classification and measurement policy for financial assets outlined on page 18. Additionally, expected credit losses associated with 'Investment securities - debt securities at fair value through other comprehensive income' are recognised and measured in accordance with the accounting policy outlined in Note 12 Allowance for Expected Credit Losses, and the allowance for Expected Credit Loss (ECL) is recognised in the FVOCI reserve in equity with a corresponding charge to profit or loss.

KEY JUDGEMENTS AND ESTIMATES

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

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	2021 NZ$m	2020 NZ$m
Overdrafts		799	659
Credit cards		1,127	1,300
Term loans - housing		98,513	89,258
Term loans - non-housing		40,528	41,882
Subtotal		140,967	133,099
Unearned income		(18)	(26)
Capitalised brokerage and other origination costs		392	319
Gross loans and advances		141,341	133,392
Allowance for expected credit losses	12	(585)	(694)
Net loans and advances		140,756	132,698
Residual contractual maturity:			
Within one year		32,708	35,158
More than one year		108,048	97,540
Net loans and advances		140,756	132,698

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$318 million as at 30 September 2021 (2020: NZ$287 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

RECOGNITION AND MEASUREMENT

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

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

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

Assets disclosed as net loans and advances are subject to the general classification and measurement policy for financial assets outlined on page 18. Additionally, expected credit losses associated with loans and advances at amortised cost are recognised and measured in accordance with the accounting policy outlined in Note 12 Allowance for Expected Credit Losses.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

	2021			2020		
	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
Net loans and advances at amortised cost	525	60	585	588	106	694
Off-balance sheet commitments	107	15	122	137	22	159
Total	632	75	707	725	128	853

The following tables present the movement in the allowance for ECL for the year.

Net loans and advances

Allowance for ECL is included in net loans and advances.

			Stage 3		
	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	164	194	42	97	497
Transfer between stages	25	(30)	4	1	-
New and increased provisions (net of collective provision releases)	(2)	206	34	157	395
Write-backs	-	-	-	(34)	(34)
Bad debts written-off (excluding recoveries)	-	-	-	(92)	(92)
Discount unwind	-	-	-	(9)	(9)
Sale of UDC	(25)	(23)	(1)	(14)	(63)
As at 30 September 2020	162	347	79	106	694
Transfer between stages	16	(14)	(2)	-	-
New and increased provisions (net of collective provision releases)	(23)	(19)	(21)	67	4
Write-backs	-	-	-	(63)	(63)
Bad debts written-off (excluding recoveries)	-	-	-	(47)	(47)
Discount unwind	-	-	-	(3)	(3)
As at 30 September 2021	155	314	56	60	585

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

Allowance for ECL is included in other provisions.

As at 1 October 2019	60	24	2	11	97
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	17	36	1	11	65
Sale of UDC	(1)	(2)	-	-	(3)
As at 30 September 2020	79	55	3	22	159
Transfer between stages	3	(4)	1	-	-
New and increased provisions (net of collective provision releases)	(18)	(12)	-	(7)	(37)
As at 30 September 2021	64	39	4	15	122

The collectively assessed allowance for ECL decreased by NZ$93 million attributable to: a reduction of NZ$62 million from the improving economic outlook offset by changes to the allowance for model uncertainty due to the continuing pandemic; and a reduction of NZ$31 million due to portfolio credit risk profile improvements, offset by an increase in mortgage lending.

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

	2021 NZ$m	2020 NZ$m
New and increased provisions (net of releases)		
- Collectively assessed	(93)	291
- Individually assessed	60	169
Write-backs	(63)	(34)
Recoveries of amounts previously written-off	(18)	(23)
Total credit impairment charge / (release)	(114)	403

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS MODEL

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

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

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

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

MEASUREMENT OF EXPECTED CREDIT LOSS

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

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

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

EXPECTED LIFE

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

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

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

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

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

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

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

MODIFIED FINANCIAL ASSETS

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

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

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

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

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

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

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

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

iii. COVID-19 initiatives
Facilities previously subject to the COVID-19 payment deferral arrangements have been subsumed into the normal loan portfolios and SICR applied accordingly.

FORWARD-LOOKING INFORMATION

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

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

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

iv. Severe downside scenario
The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe impact of less likely extremely adverse economic conditions. It reflects macro-economic conditions of a downturn economic event with a probability of occurrence once every 25 years.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

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

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

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

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. The Banking Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement / assumption	Description	Considerations for the year ended 30 September 2021
Determining when a SICR has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Banking Group monitors the effectiveness of SICR criteria on an ongoing basis.	The support packages offered to customers in response to COVID-19 in 2020 and 2021 have ceased with the majority of customers who took up the support packages having reverted back to their normal loan repayments. Given the recent cessation of these packages, the Banking Group has provided a component of ECL for expected delinquencies that may have been obscured by the support measures.
Measuring both 12-month and lifetime credit losses	The probability of default (PD), loss given default (LGD) and exposure at default (EAD) credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.	The PD, EAD and LGD models are subject to the Banking Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. During the year ended 30 September 2021 an adjustment was made to the modelled outcome to account for increased model uncertainties as a result of COVID-19.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no material changes to the policies during the year ended 30 September 2021.
Base case economic forecast	The Banking Group derives a forward-looking "base case" economic scenario which reflects our view of the most likely future macro-economic conditions.	There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs in the current year. As at 30 September 2021, the base case assumptions have been updated to reflect the evolving situation with respect to COVID-19, including emergence from lockdowns, government stimulus measures and roll-out of vaccines. In determining the expected path of the economy, assessments of the impact of central bank policies, governments' actions, the response of business, and institution specific responses (such as payment deferrals) were considered. The expected outcomes of key economic drivers for the base case scenario as at 30 September 2021 are described below under the heading "Base case economic forecast assumptions".

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Judgement / assumption	Description	Considerations for the year ended 30 September 2021
Probability weighting of each scenario (base case, upside, downside and severe downside scenarios)[1,2]	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case scenario at each measurement date.	The key consideration for probability weightings in the current period is the continued uncertain economic impacts of COVID-19. The Banking Group considers these weightings to provide estimates of the possible loss outcomes taking into account short and long-term inter-relationships within the Banking Group's credit portfolios. As at 30 September 2021, a base case weighting of 50% has been applied, and more weight has been applied to the downside scenario given the Banking Group's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, including the roll-out of vaccines and their efficacy, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models which are based on historical underlying data. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with continuing COVID-19 impacts. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for risks particular to personal and business banking. Management temporary adjustments total NZ$177 million (2020: NZ$177 million).

1. The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.
2. The severe downside scenario is fixed by reference to average economic cycle conditions and accounts for the potentially severe downside impact of less likely extremely adverse economic conditions.

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Base case economic forecast assumptions

The uncertain evolution of the COVID-19 pandemic and associated government, business and consumer responses, increases the risk of the economic forecast resulting in an understatement or overstatement of the ECL balance due to uncertainties around:

- the extent and duration of measures, including the roll-out of vaccines and the relaxation of containment measures, impacting the spread of COVID-19;
- the expected impact on the economy, including the timing and speed of the economic response and differences between sectors; and
- the effects of progressive reductions in stimulus measures, in particular their impact on the extent and duration of economic recovery.

The economic drivers of the base case economic forecasts at 30 September 2021 are set out below. These reflect our view of future macro-economic conditions at 30 September 2021. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

		Forecast calendar year	
New Zealand	2021	2022	2023
Gross domestic product (GDP) (annual % change)	4.3%	4.3%	2.9%
Unemployment rate	4.1%	3.9%	3.9%
Residential property prices (annual % change)	22.4%	0.4%	5.2%
Consumer price index (CPI)	3.3	2.9	1.9

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

Probability weightings

Probability weightings for each scenario are determined by management considering the risks and uncertainties surrounding the base case economic scenario. The key consideration for probability weightings in the current period is the effectiveness of actions taken in response to COVID-19 relaxation of containment measures by governments, and the take-up of vaccines limiting the impact of the virus.

The base case scenario represents a significant improvement in the forecasts since September 2020. Given the uncertainties associated with a potential ongoing recovery of the economy, the base case weighting remains at 50% and the downside scenario has been increased to 40.5% (2020: 32.0%).

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

	2021	2020
Base	50.0%	50.0%
Upside	4.5%	8.0%
Downside	40.5%	32.0%
Severe downside	5.0%	10.0%

ECL - Sensitivity analysis

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

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 30 September 2021:

	ECL NZ$m	Impact NZ$m
If 1% of Stage 1 facilities were included in Stage 2	637	5
If 1% of Stage 2 facilities were included in Stage 1	631	(1)
100% upside scenario	251	(381)
100% base scenario	327	(305)
100% downside scenario	594	(38)
100% severe downside scenario	792	160

FINANCIAL LIABILITIES

CLASSIFICATION AND MEASUREMENT

Financial liabilities

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

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

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

13. DEPOSITS AND OTHER BORROWINGS

	Note	2021 NZ$m	2020 NZ$m
Term deposits		40,668	50,069
On demand and short term deposits		62,648	53,910
Deposits not bearing interest		21,813	16,884
Total customer deposits		125,129	120,863
Certificates of deposit		1,875	1,782
Commercial paper		4,433	1,748
Securities sold under repurchase agreements		1,663	646
Deposits from Immediate Parent Company and NZ Branch	26	39	22
Deposits and other borrowings		133,139	125,061
Residual contractual maturity:			
Within one year		129,726	121,421
More than one year		3,413	3,640
Deposits and other borrowings		133,139	125,061
Carried on balance sheet at:			
Amortised cost		128,706	123,313
Fair value through profit or loss (designated on initial recognition)		4,433	1,748
Deposits and other borrowings		133,139	125,061

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 measured at fair value through profit or loss.

Refer to Note 16 Fair Value of Financial Assets and Financial Liabilities for further details.

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. DEBT ISSUANCES

The Banking Group uses a variety of funding programmes to issue unsubordinated debt 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. In any liquidation event subordinated debt will be repaid by the relevant issuer only after the repayment of claims of depositors, other creditors and the unsubordinated debt holders.

	2021 NZ$m	2020 NZ$m
Senior debt	14,220	17,476
Covered bonds	4,248	4,522
Total unsubordinated debt	18,468	21,998
Subordinated debt		
- Additional Tier 1 capital instruments	2,441	2,441
- Tier 2 capital instruments	593	-
Total debt issued	21,502	24,439

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.

		2021 NZ$m	2020 NZ$m
AUD	Australian dollars	45	49
EUR	Euro	8,055	8,332
NZD	New Zealand dollars	4,494	4,921
CHF	Swiss Francs	984	1,053
USD	United States dollars	7,924	10,084
Total debt issued		21,502	24,439
Residual contractual maturity:			
Within one year		4,334	5,133
More than one year		17,168	19,306
Total debt issued		21,502	24,439

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

SUBORDINATED DEBT

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

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

AT1 CAPITAL

AT1 capital notes are fully paid convertible non-cumulative perpetual subordinated notes. Holders of AT1 capital notes do not have any right to vote in general meetings of the Bank. As at 30 September 2021, ANZ NZ CN carried a BBB- credit rating from S&P Global Ratings.

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

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

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

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

14. DEBT ISSUANCES (continued)

- 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 RBNZ has released new capital adequacy requirements for New Zealand banks, which are being implemented from October 2021 to July 2028. Under the new requirements, from 1 January 2022, the AT1 capital notes are subject to a 12.5% reduction in their regulatory capital recognition. As a result, the Bank has determined that a regulatory event has occurred in respect of these notes. The occurrence of a regulatory event means that the Bank may choose to redeem any of the AT1 capital notes at its discretion. A redemption of the AT1 capital notes is subject to certain conditions, including regulatory approvals. As at 10 November 2021, no decision has been made on whether the Bank will redeem the AT1 capital notes.

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

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount and carrying value	NZ$500 million	NZ$1,003 million	NZ$938 million
Face value	NZ$1	NZ$100	NZ$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Floating rate: New Zealand 3 month Bank bill rate + 3.5%	Floating rate: New Zealand 6 month Bank Bill rate + 3.8%	Floating rate: New Zealand 6 month Bank Bill rate + 6.29%
Issuer's early redemption (as per deed poll)	n/a[1]	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

1 On 2 April 2020, RBNZ announced that locally incorporated banks, including the Bank, should not redeem capital notes at that time. Accordingly, the Bank was not permitted to, and did not, redeem ANZ NZ CN on 25 May 2020 (the Optional Exchange Date). Further, the Bank did not exercise its option to convert ANZ NZ CN into ordinary shares of the Ultimate Parent Bank on the Optional Exchange Date.

TIER 2 CAPITAL

Tier 2 capital notes are fully paid unsecured subordinated notes. As at 30 September 2021 the notes carried an A- credit rating from S&P Global Ratings. Interest payments are subject to the Bank being solvent at the time of, and immediately following, the payment. Unpaid interest accumulates, and will be paid at the earlier of when the Bank is solvent again or at maturity. The Bank may repay the notes early on the dates specified below, or in certain other circumstances (such as a tax or regulatory event). Early repayment is subject to certain conditions, including approval from the RBNZ.

Issue date	17 September 2021
Issue amount and carrying value	Issue amount: NZ$600 million; Carrying value (net of issue costs): NZ$593 million
Face value	NZ$1
Interest frequency	Quarterly in arrears
Interest rate	Fixed at 2.999% p.a. until 17 September 2026. Resets on 17 September 2026 to a floating rate: New Zealand 3 month Bank bill rate + 1.25%
Issuer's early redemption	17 September 2026 or any interest payment date thereafter
Maturity	17 September 2031

RECOGNITION AND MEASUREMENT

Debt issuances are measured at amortised cost. Where the Banking Group enters into a fair value hedge accounting relationship, the fair value attributable to the hedge risk is reflected in adjustments to the carrying value of the debt. 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 significant value as of the reporting date given the remote nature of those trigger events.

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

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

Key material financial risks	Key sections applicable to this risk
Credit risk The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in financial loss. Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies.	• Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
Market risk The risk to the Banking Group's earnings arising from: • changes in interest rates, foreign exchanges rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices.	• Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Foreign currency risk – structural exposure
Liquidity and funding risk The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	• Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity portfolio management • Funding position • Residual contractual maturity analysis of the Banking Group's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

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

Internal Audit Function

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

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

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

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

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.

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

	Reported		Excluded[1]		Maximum exposure to credit risk	
	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
On-balance sheet positions						
Net loans and advances	140,756	132,698	-	-	140,756	132,698
Other financial assets:						
Cash and cash equivalents	7,844	8,248	163	187	7,681	8,061
Settlement balances receivable	237	378	-	-	237	378
Collateral paid	537	1,394	-	-	537	1,394
Trading securities	9,585	12,797	-	-	9,585	12,797
Derivative financial instruments	9,304	9,702	-	-	9,304	9,702
Investment securities	11,926	9,893	-	-	11,926	9,893
Other financial assets[2]	496	547	-	-	496	547
Total other financial assets	39,929	42,959	163	187	39,766	42,772
Subtotal	180,685	175,657	163	187	180,522	175,470
Off-balance sheet commitments						
Undrawn and contingent facilities[3]	30,030	30,857	-	-	30,030	30,857
Total	210,715	206,514	163	187	210,552	206,327

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

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

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

Net loans and advances

			Stage 3		
As at 30 September 2021	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
Strong	116,578	1,620	-	-	118,198
Satisfactory	17,122	3,134	-	-	20,256
Weak	293	1,447	-	-	1,740
Defaulted	-	-	618	155	773
Subtotal	133,993	6,201	618	155	140,967
Allowance for ECL	(155)	(314)	(56)	(60)	(585)
Net loans and advances at amortised cost	133,838	5,887	562	95	140,382
Coverage ratio	0.12%	5.06%	9.06%	38.71%	0.41%
Unearned income					(18)
Capitalised brokerage and other origination costs					392
Net carrying amount					140,756
As at 30 September 2020					
Strong	98,259	5,508	-	-	103,767
Satisfactory	21,446	4,578	-	-	26,024
Weak	405	1,734	-	-	2,139
Defaulted	-	-	808	361	1,169
Subtotal	120,110	11,820	808	361	133,099
Allowance for ECL	(162)	(347)	(79)	(106)	(694)
Net loans and advances at amortised cost	119,948	11,473	729	255	132,405
Coverage ratio	0.13%	2.94%	9.78%	29.36%	0.52%
Unearned income					(26)
Capitalised brokerage and other origination costs					319
Net carrying amount					132,698

Other financial assets

	2021 NZ$m	2020 NZ$m
Strong	39,702	42,275
Satisfactory	49	447
Weak	15	50
Defaulted	-	-
Total carrying amount	39,766	42,772

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

Off-balance sheet commitments - undrawn and contingent facilities

			Stage 3		
As at 30 September 2021	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
Strong	25,072	142	-	-	25,214
Satisfactory	3,734	1,037	-	-	4,771
Weak	12	100	-	-	112
Defaulted	-	-	32	23	55
Gross undrawn and contingent facilities	28,818	1,279	32	23	30,152
Allowance for ECL included in Other provisions (refer to Note 20)	(64)	(39)	(4)	(15)	(122)
Net undrawn and contingent facilities	28,754	1,240	28	8	30,030
Coverage ratio	0.22%	3.05%	12.50%	65.22%	0.40%
As at 30 September 2020					
Strong	25,525	302	-	-	25,827
Satisfactory	3,949	974	-	-	4,923
Weak	27	179	-	-	206
Defaulted	-	-	19	41	60
Gross undrawn and contingent facilities	29,501	1,455	19	41	31,016
Allowance for ECL included in Other provisions (refer to Note 20)	(79)	(55)	(3)	(22)	(159)
Net undrawn and contingent facilities	29,422	1,400	16	19	30,857
Coverage ratio	0.27%	3.78%	15.79%	53.66%	0.51%

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

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

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
New Zealand residents								
Agriculture	16,316	17,049	43	70	854	862	17,213	17,981
Forestry and fishing, agriculture services	659	678	5	5	137	113	801	796
Manufacturing	2,342	2,407	162	161	2,126	2,350	4,630	4,918
Electricity, gas, water and waste services	946	1,098	337	567	1,828	1,991	3,111	3,656
Construction	1,165	1,150	9	26	909	955	2,083	2,131
Wholesale trade	1,264	1,243	51	69	1,790	1,797	3,105	3,109
Retail trade and accommodation	2,473	2,415	12	27	848	992	3,333	3,434
Transport, postal and warehousing	943	838	55	159	708	738	1,706	1,735
Finance and insurance services	1,040	948	10,969	11,139	1,774	1,800	13,783	13,887
Rental, hiring & real estate services	37,441	35,529	1,627	1,270	2,357	2,314	41,425	39,113
Professional, scientific, technical, administrative and support services	830	923	5	7	480	545	1,315	1,475
Public administration and safety[1]	305	283	12,453	16,395	808	883	13,566	17,561
Households	71,274	64,522	156	167	13,564	13,757	84,994	78,446
All other New Zealand residents[2]	1,905	2,059	96	153	1,869	1,796	3,870	4,008
Subtotal	138,903	131,142	25,980	30,215	30,052	30,893	194,935	192,250
Overseas								
Finance and insurance services	104	127	13,755	12,540	100	123	13,959	12,790
Households	1,259	1,172	3	3	-	-	1,262	1,175
All other non-NZ residents	701	658	28	14	-	-	729	672
Subtotal	2,064	1,957	13,786	12,557	100	123	15,950	14,637
Gross total	140,967	133,099	39,766	42,772	30,152	31,016	210,885	206,887
Allowance for ECL	(585)	(694)	-	-	(122)	(159)	(707)	(853)
Subtotal	140,382	132,405	39,766	42,772	30,030	30,857	210,178	206,034
Unearned income	(18)	(26)	-	-	-	-	(18)	(26)
Capitalised brokerage and other origination costs	392	319	-	-	-	-	392	319
Maximum exposure to credit risk	140,756	132,698	39,766	42,772	30,030	30,857	210,552	206,327

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.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

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

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

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

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
Net loans and advances	**140,756**	132,698	**133,801**	125,770	**6,955**	6,928
Other financial assets	**39,766**	42,772	**1,878**	2,761	**37,888**	40,011
Off-balance sheet positions	**30,030**	30,857	**16,241**	15,291	**13,789**	15,566
Total	**210,552**	206,327	**151,920**	143,822	**58,632**	62,505

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

MEASUREMENT OF MARKET RISK

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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:

	2021				2020			
	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	0.6	2.3	0.2	1.0	0.7	2.0	0.2	0.7
Interest rate	2.9	7.4	2.0	4.4	6.1	8.7	1.0	3.2
Credit	0.5	1.5	0.3	0.8	1.2	1.6	0.4	0.8
Diversification benefit[1]	(1.0)	n/a	n/a	(1.3)	(1.3)	n/a	n/a	(0.9)
Total VaR	3.0	9.4	2.2	4.9	6.7	10.3	1.1	3.8

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.

	2021				2020			
	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	22.5	38.4	22.3	30.5	29.1	29.1	9.5	16.6

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.

	2021	2020
Impact of 1% rate shock		
As at period end	-1.4%	-0.6%
Maximum exposure	0.2%	1.5%
Minimum exposure	-2.0%	-0.6%
Average exposure (in absolute terms)	-1.0%	0.5%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

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

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

Management of liquidity and funding is overseen by ALCO. 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

The 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 2021 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 wholesale 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 with targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term and long-term wholesale funding is managed and executed by 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.

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

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

Total liquidity portfolio

	2021 NZ$m	2020 NZ$m
Central and local government bonds	10,312	10,729
Government treasury bills	899	3,909
Certificates of deposit	959	389
Other bonds	8,913	7,525
Securities eligible to be accepted as collateral in repurchase transactions	21,083	22,552
Cash and balances with central banks	7,013	7,385
Total liquidity portfolio	28,096	29,937

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

The Bank also held unencumbered internal residential mortgage backed securities (RMBS) which would be accepted as collateral by RBNZ in repurchase transactions. These holdings would entitle the Bank to enter into repurchase transactions with RBNZ with a value of NZ$9,647 million at 30 September 2021 (2020: NZ$8,184 million).

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

- Between May 2020 and July 2021, RBNZ made funds available under the TLF to promote lending to businesses. The TLF is a five-year secured funding facility for New Zealand banks at a fixed rate of 0.25%.
- In November 2020, RBNZ announced the FLP which aims to lower the cost of borrowing for New Zealand businesses and households. The FLP is a three-year secured funding facility for New Zealand banks at a floating rate of the New Zealand Official Cash Rate (OCR). New Zealand banks can obtain initial funding of up to 4% of their lending to New Zealand resident households, non-financial businesses and non-profit institutions serving households as at 31 October 2020 (eligible loans). An additional allocation of up to 2% of eligible loans is available, subject to certain conditions. The Bank's initial allocation is NZ$5,223 million and its additional allocation is NZ$2,611 million. The additional allocation is available until 6 December 2022, and the initial allocation is available until 6 June 2022.

As at 30 September 2021, the Bank had drawn NZ$300 million (2020: nil) under the TLF and NZ$1,000 million (2020: nil) under the FLP. These amounts are included in securities sold under repurchase agreements in Note 13 Deposits and Other Borrowings.

Liquidity crisis contingency planning

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

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 NZSIOC.

	Note	2021 NZ$m	2020 NZ$m
Funding composition			
Customer deposits	13	125,129	120,863
Wholesale funding			
Debt issuances		21,502	24,439
Certificates of deposit and commercial paper		6,308	3,530
Other borrowings		1,702	668
Total wholesale funding		29,512	28,637
Total funding		154,641	149,500
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		4,485	4,109
Manufacturing		2,707	2,863
Construction		2,884	2,750
Wholesale trade		2,688	2,407
Retail trade and accommodation		2,177	2,280
Financial and insurance services		13,836	14,491
Rental, hiring and real estate services		4,260	3,691
Professional, scientific, technical, administrative and support services		6,560	5,748
Public administration and safety		1,813	2,043
Arts, recreation and other services		2,226	2,199
Households		67,196	64,203
All other New Zealand residents[1]		4,807	4,280
		115,639	111,064
Customer deposits by industry - overseas			
Households		8,693	9,219
All other non-NZ residents		797	580
		9,490	9,799
Total customer deposits		125,129	120,863
Wholesale funding (financial and insurance services industry)			
New Zealand		7,891	6,814
Overseas		21,621	21,823
Total wholesale funding		29,512	28,637
Total funding		154,641	149,500
Concentrations of funding by geography			
New Zealand		123,530	117,878
Australia		983	1,243
United States		12,791	12,223
Europe		10,369	10,976
Other countries		6,968	7,180
Total funding		154,641	149,500

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

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

The tables below provide residual contractual maturity analysis of financial liabilities at 30 September 2021 and 30 September 2020 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how the Banking Group manages its liquidity risk. The management of this risk is detailed on page 45.

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

2020	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances payable	2,378	573	-	-	-	2,951
Collateral received	-	1,275	-	-	-	1,275
Deposits and other borrowings	70,794	25,610	25,685	3,895	-	125,984
Derivative financial liabilities (trading)	-	6,374	-	-	-	6,374
Debt issuances[1]	-	450	5,061	14,762	4,840	25,113
Lease liabilities	-	13	39	178	99	329
Other financial liabilities	-	80	6	98	68	252
Derivative financial instruments (balance sheet management)						
- gross inflows	-	392	1,924	6,638	366	9,320
- gross outflows	-	(496)	(2,042)	(6,502)	(282)	(9,322)

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

At 30 September 2021, NZ$30,152 million (2020: NZ$31,016 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.

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

VALUATION

The Banking Group has an established control framework, including 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 funding valuation adjustments, credit valuation adjustments and bid-offer adjustments) 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 assets and liabilities for recognition, measurement and disclosure purposes where no quoted price in an active market exists for that asset or liability. This includes the following:

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

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

		2021			2020		
	Note	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m
Financial assets							
Cash and cash equivalents	7	7,844	-	7,844	8,248	-	8,248
Settlement balances receivable		237	-	237	378	-	378
Collateral paid		537	-	537	1,394	-	1,394
Trading securities	8	-	9,585	9,585	-	12,797	12,797
Derivative financial instruments	9	-	9,304	9,304	-	9,702	9,702
Investment securities	10	-	11,926	11,926	-	9,893	9,893
Net loans and advances	11	140,756	-	140,756	132,698	-	132,698
Other financial assets		496	-	496	547	-	547
Total		149,870	30,815	180,685	143,265	32,392	175,657
Financial liabilities							
Settlement balances payable		2,704	-	2,704	2,950	-	2,950
Collateral received		738	-	738	1,275	-	1,275
Deposits and other borrowings	13	128,706	4,433	133,139	123,313	1,748	125,061
Derivative financial instruments	9	-	7,727	7,727	-	8,252	8,252
Debt issuances	14	21,502	-	21,502	24,439	-	24,439
Other financial liabilities		572	676	1,248	679	158	837
Total		154,222	12,836	167,058	152,656	10,158	162,814

NOTES TO THE FINANCIAL STATEMENTS

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

FAIR VALUE HIERARCHY

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

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

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

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
Assets								
Trading securities	8,276	8,848	1,309	3,949	-	-	9,585	12,797
Derivative financial instruments	19	8	9,284	9,691	1	3	9,304	9,702
Investment securities	11,925	9,892	-	-	1	1	11,926	9,893
Total	20,220	18,748	10,593	13,640	2	4	30,815	32,392
Liabilities								
Deposits and other borrowings	-	-	4,433	1,748	-	-	4,433	1,748
Derivative financial instruments	5	4	7,722	8,248	-	-	7,727	8,252
Other financial liabilities	676	158	-	-	-	-	676	158
Total	681	162	12,155	9,996	-	-	12,836	10,158

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.

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

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

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

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: Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Fair value (total)	
	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
Financial assets										
Net loans and advances	140,756	132,698	-	-	106	133	140,597	133,172	140,703	133,305
Total	140,756	132,698	-	-	106	133	140,597	133,172	140,703	133,305
Financial liabilities										
Deposits and other borrowings	128,706	123,313	-	-	128,726	123,486	-	-	128,726	123,486
Debt issuances	21,502	24,439	2,626	2,637	19,276	22,111	-	-	21,902	24,748
Total	150,208	147,752	2,626	2,637	148,002	145,597	-	-	150,628	148,234

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. This has not changed as a result of COVID-19, however the Banking Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

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 reflect the Banking Group's assessment of factors that market participants would consider in determining 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 CSA that forms part of the ISDA Master Agreement under which most of our derivatives are executed.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

- securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements;
- specified residential mortgages provided as security for notes and bonds issued to investors as part of the Banking Group's covered bond programmes; and
- collateral provided to the RBNZ under the TLF and FLP.

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

	2021 NZ$m	2020 NZ$m
Securities sold under agreements to repurchase[1]	362	646
Residential mortgages pledged as security for repurchase agreements with the RBNZ	1,556	-
Total assets of the ANZNZ Covered Bond Trust pledged as security for covered bonds	11,406	11,474

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

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

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

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

	2021 NZ$m	2020 NZ$m
Fair value of assets which can be sold or repledged	610	790
Fair value of assets sold or repledged	565	290

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			
2021	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[1]	9,304	(1,881)	7,423	(6,050)	(129)	1,244
Reverse repurchase agreements[2]	610	-	610	-	(610)	-
Total financial assets	9,914	(1,881)	8,033	(6,050)	(739)	1,244
Derivative financial instruments	(7,727)	1,250	(6,477)	6,050	81	(346)
Repurchase agreements[3]	(1,663)	-	(1,663)	-	1,663	-
Total financial liabilities	(9,390)	1,250	(8,140)	6,050	1,744	(346)
2020						
Derivative financial instruments	9,702	(3,257)	6,445	(4,462)	(342)	1,641
Reverse repurchase agreements[2]	782	-	782	-	(782)	-
Total financial assets	10,484	(3,257)	7,227	(4,462)	(1,124)	1,641
Derivative financial instruments	(8,252)	2,890	(5,362)	4,462	417	(483)
Repurchase agreements[3]	(646)	-	(646)	-	646	-
Total financial liabilities	(8,898)	2,890	(6,008)	4,462	1,063	(483)

1 In August 2021, the Banking Group amended the terms of its legal agreements with one of its central clearing counterparties whereby payment and receipt of collateral results in a legal settlement of associated derivative assets and liabilities, and an associated reduction in the carrying values of the related derivative instruments. These derivatives remain subject to a master netting agreement. The impact of this change as at 30 September 2021 is a decrease in the derivative assets of NZ$3.9 billion and a decrease in derivative liabilities of NZ$4.1 billion and reduction in net collateral paid of NZ$0.2 billion. Refer to Note 9 Derivative Financial Instruments for further information.

2 Reverse repurchase agreements are presented in the balance sheet within cash and cash equivalents.

3 Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

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19. GOODWILL AND OTHER INTANGIBLE ASSETS

	2021 NZ$m	2020 NZ$m
Goodwill	3,006	3,006
Management rights	76	76
Software	9	10
Goodwill and other intangible assets	**3,091**	3,092

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

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

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

	Goodwill		Management rights	
Cash generating unit	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
Personal banking (previously Retail and business banking)	980	893	-	-
Funds management (previously Wealth)	62	118	76	76
Personal segment (previously Retail segment)	1,042	1,011	76	76
Business (previously Commercial)	895	926	-	-
Institutional	1,069	1,069	-	-
Total	**3,006**	3,006	**76**	76

Goodwill was assessed for indicators of impairment as at 30 September 2021, taking into account the results of the February 2021 impairment test and associated sensitivity and scenario analysis performed, the forecast impact of the business segment changes outlined in Note 6 Segment Reporting, and recent economic events. There were no indicators of impairment therefore, in accordance with NZ IAS 36 *Impairment of Assets*, no further impairment test was required.

The following information is for the annual goodwill impairment test, and reflects the CGUs and goodwill allocations (which were unchanged from 30 September 2020), as at 28 February 2021.

Annual goodwill impairment test

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

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

VALUE-IN-USE

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

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

Input / assumption	Values applied in 28 February 2021 impairment test
Forecast period and projections	To 30 September 2028 - an extended forecast period was used to cover the implementation period of the RBNZ's increased capital requirements.
Revenue growth over forecast period	Comprises impacts of net interest margin and volume growth, arising from planned responses to known regulatory and economic forecasts. Average annual forecast revenue growth rates are shown below.
Credit impairment over forecast period	Varies by CGU, based on ECL modelling for 2021 to 2023, before returning to long run experience levels for 2024 to 2028. Long run experience levels are based on the Banking Group's bad debts written off, net of recoveries, since 2004 of 0.15% of gross loans and advances. Credit impairment for each CGU as a percentage of forecast gross loans and advances for 2024 to 2028 is shown below.
Terminal growth rate	2.0% - based on 2023 forecast inflation from the RBNZ's February 2021 Monetary Policy Statement.
Discount rate	Post tax: 9.4% (September 2020: 9.3%). The main variables in the calculation of the discount rate used are the risk free rate, beta and the market risk premium. The risk free rate was the traded 10 year New Zealand government bond yield as at 28 February 2021 of 1.9%. The market risk premium was estimated using a range of methods incorporating historical and forward-looking market data. Beta was consistent with observable measures applied in the regional banking sector.

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

	Revenue growth		Credit impairment		Pre-tax discount rate	
Cash generating unit	28 Feb 21	30 Sep 20	28 Feb 21	30 Sep 20	28 Feb 21	30 Sep 20
Retail and business banking	**6.1%**	5.8%	**0.13%**	0.13%	**17.5%**	16.7%
Wealth	**3.4%**	2.7%	**0.10%**	0.01%	**16.4%**	16.0%
Commercial	**4.2%**	4.8%	**0.21%**	0.22%	**17.8%**	17.1%
Institutional	**4.5%**	0.6%	**0.21%**	0.12%	**17.3%**	17.0%

We performed stress tests for key sensitivities in each CGU. A change, considered to be reasonably possible by management, in key assumptions would not cause the recoverable amounts of the Retail & business banking and Wealth CGUs to exceed their carrying amounts, but would do so for the Commercial and Institutional CGUs.

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

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

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	Management rights
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.	Purchased software owned by the Banking Group is capitalised. Internal and external costs incurred in building software and computer systems costing more than NZ$20 million are capitalised as assets. Those less than NZ$20 million are expensed in the year in which the costs are incurred.	Management fee rights arising from acquisition of funds management business.
Carrying value	Cost less any accumulated impairment losses. Allocated to the CGU to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised.	Initially, measured at fair value at acquisition. Subsequently, carried at cost less impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 2-5 years; however major core infrastructure may be amortised up to 7 years subject to approval by the Audit Committee. Purchased software is amortised over 2 years unless it is considered integral to other assets with a longer useful life.	Management fee rights have an indefinite life and are reviewed for impairment at least annually or when there is an indication of impairment.
Amortisation method	Not applicable.	Straight-line method.	Not applicable.

KEY JUDGEMENTS AND ESTIMATES

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

Goodwill

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

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

The assessment of the recoverable amount of each CGU has been made within the context of the ongoing impact of COVID-19, and reflects expectations of future events that are believed to be reasonable under the circumstances. The rapidly evolving consequences of COVID-19 and government, business and consumer responses create heightened uncertainty in these estimates and any variations could have a positive or adverse impact on the determination of recoverable amounts.

20. OTHER PROVISIONS

	Note	2021 NZ$m	2020 NZ$m
ECL allowance on undrawn facilities	12	122	159
Customer remediation		98	141
Restructuring costs		25	36
Leasehold make good		22	23
Other		28	30
Total other provisions		295	389

Movements in other provisions

	Customer remediation NZ$m	Restructuring costs NZ$m	Leasehold make good NZ$m	Other NZ$m
Balance at start of year	141	36	23	30
New and increased provisions made during the year	26	23	3	1
Provisions used during the year	(60)	(28)	(4)	(3)
Unused amounts reversed during the year	(9)	(6)	-	-
Balance at end of year	98	25	22	28

Customer remediation

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

Restructuring costs

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

Leasehold make good

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

Other

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

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

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

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

21. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ$ millions	
	2021	2020	2021	2020
Ordinary shares	6,345,755,498	6,345,755,498	11,588	11,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	6,645,755,498	11,888	11,888

Preference shares

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

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 the RBNZ, by the Bank providing notice in writing to holders of the preference shares. Under the RBNZ's new capital requirements, from 1 January 2022, the preference shares are subject to a 12.5% reduction in their regulatory capital recognition. As a result, the Bank has determined that a regulatory event has occurred in respect of the preference shares. The occurrence of a regulatory event means that the Bank may choose to redeem the preference shares at its discretion. As at 10 November 2021, no decision has been made on whether the Bank will redeem the preference shares.

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

RECOGNITION AND MEASUREMENT

Ordinary shares	Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of the Bank, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to: • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Preference shares	All preference shares were issued by the Bank to the Immediate Parent Company and do not carry any voting rights. The preference shares are wholly classified as equity instruments as there is no contractual obligation for the Bank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis. In the event of liquidation, holders of preference shares are entitled to available subscribed capital per share, pari passu with all holders of existing preference shares and AT1 capital notes but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.
Reserves:	
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments together with any tax effect.
Investment securities revaluation reserve	Includes the changes in fair value of investment securities together with any tax effect.

NOTES TO THE FINANCIAL STATEMENTS

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

The Banking Group's core capital objectives are to:

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

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

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

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

ALCO 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.

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

REGULATORY ENVIRONMENT

As the Bank is a registered bank in New Zealand, it is primarily regulated by RBNZ under the 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%.
Total capital	Tier 1 plus Tier 2 capital. Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 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.

22. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

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

Unaudited	2021 NZ$m	2020 NZ$m
Qualifying capital		
Tier 1		
Shareholder's equity	16,892	15,869
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	16,592	15,569
Deductions	(3,591)	(3,637)
Common Equity Tier 1 capital	13,001	11,932
Additional tier 1 capital	2,752	2,750
Tier 1 capital	15,753	14,682
Tier 2 capital	635	-
Total capital	16,388	14,682
Capital adequacy ratios		
Common Equity Tier 1	13.4%	11.7%
Tier 1	16.2%	14.4%
Tier 2	0.7%	0.0%
Total	16.9%	14.4%
Buffer ratio	8.9%	6.4%
Risk weighted assets	97,177	102,290

23. CONTROLLED ENTITIES

The following table lists the subsidiaries of the Bank. All subsidiaries are 100% owned and incorporated in New Zealand.

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

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 24 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.

24. STRUCTURED ENTITIES

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

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

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

Type	Details
Securitisation	The Banking Group uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). The Banking Group is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2021, the Banking Group had entered into repurchase agreements with RBNZ in relation to the TLF and FLP (30 September 2020: nil). Additionally, the Banking Group may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. The Banking Group is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	The Banking Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Banking Group may provide risk management products (derivatives) to the SE. In all instances, the Banking Group does not control these SEs. Further, the Banking Group's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Banking Group is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme. These MIS are financed through the issue of units to investors and the Banking Group considers them to be SEs. The Banking Group's interests in these MIS are limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures to the MIS that would allow the Banking Group to control the funds. Therefore, these MIS are not consolidated.

24. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or other support provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2020: nil).

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's interest in Unconsolidated Structured Entities

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

For the purpose of disclosing interests in unconsolidated SEs:

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

The Banking Group earned funds management fees from its MIS of NZ$205 million (2020: NZ$197 million) during the year. As at 30 September 2021 the Banking Group had total funds under management of NZ$39.0 billion (2020: NZ$35.2 billion) of which NZ$23.2 billion (2020: NZ$21.2 billion) related to its MIS, with the largest individual fund being approximately NZ$4.3 billion (2020: NZ$3.5 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2020: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

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

25. TRANSFERS OF FINANCIAL ASSETS

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

Covered bonds

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

Repurchase agreements

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

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

	Covered bonds		Repurchase agreements	
	2021 NZ$m	2020 NZ$m	2021 NZ$m	2020 NZ$m
Current carrying amount of assets transferred	11,406	11,474	1,918	650
Carrying amount of associated liabilities	4,248	4,522	1,663	646

26. RELATED PARTY DISCLOSURES

Key management personnel and their related parties

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

Key management personnel compensation[1]	2021 NZ$000	2020 NZ$000
Salaries and short-term employee benefits	11,256	10,521
Post-employment benefits	192	256
Other long-term benefits[2]	68	107
Termination benefits[3]	1,308	1,155
Share-based payments	2,395	2,679
Total	15,219	14,718

1 Includes former disclosed KMPs until the end of their employment, and close family members of KMP employed by the Banking Group. Comparative amounts have been updated to include amounts for close family members of KMP that were previously shown separately.
2 Comprises long service leave accrued during the year.
3 Includes payments for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation.

Transactions and balances with key management personnel and their related parties[1]	2021 NZ$m	2020 NZ$m
Secured loans and advances	26	22
Credit related commitments (undrawn loan facilities)	3	3
Interest income	1	1
Customer deposits[2]	19	17
Payables and other liabilities (share-based payments liability)	2	2

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

Loans made to KMP and their related parties are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. No amounts have been written off or forgiven, or individually assessed allowances for expected credit losses raised in respect of these balances (2020: nil).

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

- Aggregate amounts for each of unsecured loans and advances, interest expense, fee income, debt issuances and collectively assessed credit impairment charge and allowance for expected credit losses were less than NZ$1 million for both years presented.
- KMP and their related parties also hold units in MIS managed by the Banking Group. Transactions and balances in respect of these MIS holdings are not disclosed because those MIS are unconsolidated structured entities and not included in the financial statements of the Banking Group.
- Some KMP pay the Banking Group for the use of carparks in premises owned or leased by the Banking Group. These amounts were less than NZ$0.1 million (2020: less than NZ$0.1 million).

Transactions with other members of the Overseas Banking Group and associates

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. Other than noted on the following page, transactions with related parties outside of the Banking Group are conducted on an arm's length basis and on normal commercial terms.

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES (continued)

Transactions	2021 NZ$m	2020 NZ$m
Immediate Parent Company		
Dividends paid	908	9
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Interest income	2	13
Interest expense	103	115
Other operating income	16	19
Operating expenses	120	97
Mortgages sold to the NZ Branch	130	-
Mortgages repurchased from the NZ Branch	17	371
Associates		
Operating expenses	2	1

Outstanding balances	2021 NZ$m	2020 NZ$m
Immediate Parent Company		
Derivative financial instruments	-	3
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Cash and cash equivalents	152	166
Derivative financial instruments	5,352	2,849
Other assets	41	48
Total due from related parties	5,545	3,066
Immediate Parent Company		
Deposits and other borrowings	28	11
Derivative financial instruments	1	-
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances payable	129	85
Collateral received	242	-
Deposits and other borrowings	85	173
Derivative financial instruments	5,018	2,877
Payables and other liabilities	32	31
Debt issuances	1,942	1,972
Associates		
Deposits and other borrowings	1	1
Total due to related parties	7,478	5,150

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

	2021 NZ$m	2020 NZ$m
Financial guarantees provided by the Ultimate Parent Bank	219	264
Financial guarantees provided to the Ultimate Parent Bank	100	123
Undrawn credit commitments provided to the Immediate Parent Company	250	250
Undrawn credit commitments provided to associates	1	1

27. COMMITMENTS AND CONTINGENT LIABILITIES

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2021 NZ$m	2020 NZ$m
Contract amount of:		
Undrawn facilities	27,420	28,273
Guarantees and letters of credit	1,181	1,309
Performance related contingencies	1,551	1,434
Total	30,152	31,016

UNDRAWN FACILITIES

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

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

OTHER CONTINGENT LIABILITIES

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

REGULATORY AND CUSTOMER EXPOSURES

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

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

LOAN INFORMATION LITIGATION

In September 2021, a representative proceeding was brought against the Bank, alleging breaches of disclosure requirements under consumer credit legislation in respect of variation letters sent to certain loan customers. The Bank is defending the allegations.

WARRANTIES AND INDEMNITIES

The Banking Group has provided warranties, indemnities and other commitments in favour of the purchaser in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments.

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

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

The Bank is committed to implementing the recommendations and addressing the issues raised by the Reviews, including a broader programme of improving the Bank's processes covered by those Reviews.

In mid-2021, the Bank obtained external interim reviews of the remediation activities being undertaken in respect of the Reviews. The external reviewer reported that the Bank has made significant progress to address non-compliance issues and improvement areas identified by the Reviews.

The programme of work for the Attestation Review has been completed. The final external review of the remediation activities for the Attestation Review is expected to be completed in December 2021.

The programme of work for the Capital Adequacy Review is expected to be completed in December 2021. The final external review of the remediation activities for the Capital Adequacy Review is underway.

28. COMPENSATION OF AUDITORS

	2021 NZ$000	2020 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	2,173	1,953
Audit related services:		
Prudential and regulatory services[2]	333	308
Offer documents assurance or review	117	94
Other assurance services[3]	47	116
Total audit related services	497	518
Total compensation of auditors relating to the Banking Group	2,670	2,471
Fees related to certain managed funds not recharged[4]	244	222
Total compensation of auditors	2,914	2,693

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

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

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 (UNAUDITED)

Details of ultimate parent bank and ultimate holding company

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

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

Effect of APRA's Prudential Standards

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

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

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

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

In December 2020, APRA amended APS222 to reduce the limits for Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents) from 50% of Level 1 total capital to 25% of Level 1 Tier 1 capital, and aggregate exposures from 150% of Level 1 total capital to 75% of Level 1 Tier 1 capital. These changes are effective from 1 January 2022. As exposures are measured net of capital deductions, the changes to APS111 *Capital Adequacy: Measurement of Capital* (APS111) outlined below will affect the measurement of ADI exposures.

In September 2021, APRA amended APS111. The most material change is in relation to the treatment of capital investments for each banking and insurance subsidiary at Level 1, with the tangible component of the investment changing from a 400% risk weighting to:

- 250% risk weighting up to an amount equal to 10% of the Ultimate Parent Bank's net Level 1 Common Equity Tier 1 (CET1) capital; and
- the remainder of the investment will be treated as a CET1 capital deduction.

Until the new APS111 is implemented from 1 January 2022, APRA requires any new or additional equity investments in banking and insurance subsidiaries, where the amount of that new or additional investments takes the aggregate value of the investment above 10 per cent of an ADI's CET1 capital, to be fully funded by equity capital at the ADI parent company level. This treatment would apply to the proportion of the new or additional investment that is above 10 per cent of an ADI's CET1 capital.

The Ultimate Parent Bank continues to review the implications for its current investments. The net impact on the Overseas Banking Group is unclear and will depend upon a number of factors including the capitalisation of the affected subsidiaries at the time of implementation and the effect of management actions being pursued that have the potential to materially offset the impact of these proposals. Based on the Ultimate Parent Bank's current investment as at 30 September 2021 in its affected subsidiaries and in the absence of any offsetting management actions, the above proposals imply a reduction in the Ultimate Parent Bank's Level 1 CET1 capital of up to approximately AUD 2 billion (~60 basis points). There would be no impact on the Overseas Banking Group's Level 2 CET1 capital ratio arising from these proposed changes. In addition, since 1 January 2021, no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as the Banking Group and the New Zealand Branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

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

Effect of the Level 3 framework

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

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

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Other APRA powers

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

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

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

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

The Immediate Parent Company holds 100% of the voting securities of the Bank. The Immediate Parent Company has the direct ability to appoint 100% of the Directors of the Bank, subject to RBNZ advising that it has no objection to the appointment in accordance with the Bank's conditions of registration. RBNZ also has the power under section 113B of the 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 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 34 for further details, and to page 52 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 10 November 2021.

Auditors

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

Directors

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

Transactions with Directors

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

Board Audit Committee

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

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

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

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

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

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)



	Rt Hon Sir John Key, GNZM AC	Antonia Watson	Maile Carnegie
Position	Independent Non-Executive Director and Chair	Chief Executive Officer and Director	Non-Executive Director
Occupation	Company Director	Chief Executive Officer New Zealand and Group Executive	Group Executive, Digital and Australia Transformation, Australia and New Zealand Banking Group Ltd
Qualifications	BCom, DCom (Honoris Causa)	BCom (Hons), GAICD	BBA
Resides	Auckland, New Zealand	Auckland, New Zealand	Sydney, Australia
Other company directorships	Australia and New Zealand Banking Group Ltd, Dairy Investment Fund Ltd, Kyro Capital Ltd, Palo Alto Networks Inc, Sashimi Holdings Ltd, Thirty Eight JK Ltd	ANZ Holdings (New Zealand) Ltd, Banking Ombudsman Scheme Ltd, Mehek Holdings Ltd	



	Shayne Elliott	Alison Gerry	Scott St John
Position	Non-Executive Director	Independent Non-Executive Director	Independent Non-Executive Director
Occupation	Chief Executive Officer, Australia and New Zealand Banking Group Ltd	Company Director	Company Director
Qualifications	BCom	BMS (Hons), MAppFin, CFInstD	BCom, Diploma of Business
Resides	Melbourne, Australia	Queenstown, New Zealand	Auckland, New Zealand
Other company directorships	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children	Air New Zealand Ltd, Asteron Life Ltd, Glendora Avocados Ltd, Glendora Holdings Ltd, Infratil Ltd, On Being Bold Ltd, Sharesies Ltd, Sharesies AU Group Ltd, Sharesies Group Ltd, Sharesies Investment Management Ltd, Sharesies Nominee Ltd, Vero Insurance New Zealand Ltd, Vero Liability Insurance Ltd	Captain Cook Nominees Ltd, Fisher & Paykel Healthcare Corporation Ltd, Fisher & Paykel Healthcare Employee Share Purchase Trustee Ltd, Fonterra Co-operative Group Ltd, Hutton Wilson Nominees Ltd, Mercury NZ Limited, Te Awanga Terraces Ltd


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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Conditions of registration

The following conditions of registration were applicable as at 30 September 2021, and have applied from 1 July 2021.

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, —

"supervisory adjustment" referred to in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is calculated as the scalar times the sum of:

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

and

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

"standard residential mortgage loan" has the same meaning as in 4.7(a) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B), dated November 2015;

"corporate farm lending exposures" has the same meaning as in 4.4(c) 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 and elsewhere in this condition of registration is 1.06;

"Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" 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, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) 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 or subsection B3.2(2)(a) or (c) of the Reserve Bank of New Zealand document "BPR110: Capital Definitions";

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 except that the amount of Tier 2 capital included in the calculation of total capital must include the value of any Tier 2 capital instrument meeting the definition given in this condition of registration;

"Total capital ratio" has 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 except that in the formula for calculating "total capital ratio", the value of "total capital" is as defined in this condition of registration, and the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

the Reserve Bank of New Zealand document "BPR001: Glossary" provides definitions for the defined terms highlighted in the Reserve Bank of New Zealand document "BPR110: Capital Definitions".

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".

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015:

(a) the model approval requirements in section 1.3A;

(b) the compendium requirements in section 1.3B;

(c) the minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and

(d) the minimum qualitative requirements for using the Advanced Measurement Approach ("AMA") for operational risk set out in section 8.4(a) and sections 8.5 to 8.14.

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 on distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit on distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875 - 2.5%	50%

(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, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) 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.

1D. That, if the buffer ratio of the banking group is more than 2.5%, the bank must limit aggregate distributions, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank's earnings.

For the purposes of this condition of registration,—

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;

"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, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) 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;

the bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year, and must not make any such dividend payment less than six months after any previous such dividend payment.

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.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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

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

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

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

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

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.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:

    (a) that the bank's clearing and settlement obligations due on a day can be met on that day;

    (b) that the bank's financial risk positions on a day can be identified on that day;

    (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

    (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

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

    For the purposes of this condition of registration:

    (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and

    (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy (BS11)" dated April 2020.

12. That:

    (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;

    (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and

    (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

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

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

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

    (c) the one-year core funding ratio of the banking group is not less than 50 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 May 2021 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated May 2021.

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.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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.

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 the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated April 2020.

22. That, for a loan-to-valuation measurement period ending on or before 30 June 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That, for a loan-to-valuation measurement period ending on or after 31 July 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

24. 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 mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

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

In these conditions of registration,—

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

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

In conditions of registration 22 to 25,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means—

(a) the three calendar month period ending on the last day of May 2021; 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 June 2021.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Changes since 30 September 2021

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

- implement the new Banking Prudential Regulations (BPRs) which implement the capital review decisions (effective 1 October 2021); and
- include further changes on high loan-to-valuation residential mortgage lending to investors (effective 1 November 2021).

Outcome of the RBNZ liquidity thematic review

The RBNZ published a report in September 2021 outlining the findings from the thematic review of compliance with the RBNZ's liquidity policy (BS13 and BS13A). The ten largest New Zealand-incorporated banks, including the Bank, were required to develop a remediation plan to address the findings set out in individual feedback letters and conduct a materiality assessment of the impact of certain quantitative findings on the liquidity ratios. The Bank has provided the RBNZ with a remediation plan to address the individual feedback the Bank received and undertaken the required materiality assessment. The Bank continues to work with the RBNZ on the findings of the thematic review.

Material non-compliance with conditions of registration: Condition of registration 1B – non-compliance with BS2B

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

As at 30 September 2021, 16 of these models had been submitted to the RBNZ for approval, with four of these approved. Nine models were approved in October 2021. The final model is expected to be submitted before the end of 2021. The four remaining unapproved models and the initial dates of non-compliance are:

- Bank rating – 2008 (submitted to RBNZ)
- Project and structured finance - 2009 (submitted to RBNZ)
- Commercial property: hotels - 2011 (submitted to RBNZ)
- Commercial property: special purpose asset investment - 2011 (to be submitted)

The Bank's model compendium required under section 1.3B of BS2B was found to be non-compliant as it included unapproved model changes. An updated model compendium was submitted to the RBNZ in April 2021, and is now compliant.

Other matters relevant to the conditions of registration

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

Other material matters

New RBNZ capital requirements

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

- The Banking Group's total capital requirement will increase to 18% of RWA, including tier 1 capital of at least 16% of RWA. Up to 2.5% of the tier 1 capital requirement can be made up of additional tier 1 (AT1) capital, with the remainder of the tier 1 requirement made up of common equity tier 1 (CET1) capital. The increased capital ratios requirement will be implemented progressively from 1 July 2022 to 1 July 2028. AT1 capital must consist of perpetual preference shares, which may be redeemable. The total capital requirement can also include tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The tier 1 capital requirement will include a CET1 prudential capital buffer of 9% of RWA. This will include: a 2% domestic, systemically important bank capital buffer; a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and a 5.5% capital conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at 30 September 2021, the Bank had approximately NZ$2,741 million of AT1 instruments that will progressively lose eligible regulatory capital treatment over a six and a half year transition period from 1 January 2022 to 1 July 2028.
- As an internal ratings based approach accredited bank, the Banking Group's RWA outcomes will be increased to approximately 90% of what would be calculated under the standardised approach. This will be achieved by applying an 85% output floor from 1 January 2022, and increasing the credit RWA scalar from 1.06 to 1.20 from 1 October 2022.
- The Banking Group will be required to report RWA, and resulting capital ratios, using both the internal models and the standardised approaches from 30 September 2022.

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

Since 30 September 2018, CET1 capital has increased by NZ$3.9 billion to NZ$13.0 billion at 30 September 2021 and total capital has increased by NZ$4.5 billion to NZ$16.4 billion, in preparation for these changes and due to the RBNZ's COVID-19 related dividend restrictions.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Credit rating

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

Fitch Ratings changed the rating on the Bank from AA- to A+ on 7 April 2020. S&P Global Ratings changed the outlook on the Bank from Stable to Negative on 8 April 2020. Fitch Ratings changed the outlook on the Bank from Negative to Stable on 12 April 2021. S&P Global Ratings changed the outlook on the Bank from Negative to Stable on 7 June 2021.

As at 10 November 2021, the Bank's credit ratings are:

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

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

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

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Historical summary of financial statements

Income statement

For the year ended 30 September	2021 NZ$m	2020 NZ$m	2019 NZ$m	2018 NZ$m	2017 NZ$m
Interest income	**4,600**	5,568	6,423	6,390	6,198
Interest expense	**(1,176)**	(2,306)	(3,179)	(3,240)	(3,161)
Net interest income	**3,424**	3,262	3,244	3,150	3,037
Non-interest income	**765**	807	946	1,126	938
Operating income	**4,189**	4,069	4,190	4,276	3,975
Operating expenses	**(1,621)**	(1,752)	(1,608)	(1,517)	(1,468)
Credit impairment charge	**114**	(403)	(101)	(55)	(62)
Profit before income tax	**2,682**	1,914	2,481	2,704	2,445
Income tax expense	**(743)**	(541)	(662)	(751)	(680)
Profit after income tax	**1,939**	1,373	1,819	1,953	1,765

Balance sheet

As at 30 September	2021 NZ$m	2020 NZ$m	2019 NZ$m	2018 NZ$m	2017 NZ$m
Total assets	**184,769**	179,744	169,416	159,012	153,973
Total individually impaired assets	**155**	361	285	321	357
Total impaired assets (i.e. Stage 3)	**773**	1,169	729	n/a	n/a
Total liabilities	**167,877**	163,875	154,986	145,903	141,192
Equity	**16,892**	15,869	14,430	13,109	12,781
Other items included in Equity					
Dividends paid	**(908)**	(9)	(411)	(4,611)	(1,695)
Share capital issued	**-**	-	-	3,000	-

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

Pending proceedings or arbitration

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

REGISTERED BANK DISCLOSURES

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2021 NZ$m	2020 NZ$m
Total interest earning and discount bearing assets	170,849	165,332
Total interest and discount bearing liabilities	136,312	136,036

Additional information on interest rate sensitivity

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

2021	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest[1] NZ$m
Assets							
Cash and cash equivalents	7,844	7,523	-	-	-	-	321
Settlement balances receivable	237	-	-	-	-	-	237
Collateral paid	537	537	-	-	-	-	-
Trading securities	9,585	1,027	907	342	1,765	5,544	-
Derivative financial instruments	9,304	-	-	-	-	-	9,304
Investment securities	11,926	174	219	272	2,257	9,003	1
Net loans and advances	140,756	62,443	14,684	35,409	17,554	11,189	(523)
Other financial assets	496	-	-	-	-	-	496
Total financial assets	180,685	71,704	15,810	36,023	21,576	25,736	9,836
Liabilities							
Settlement balances payable	2,704	1,808	-	-	-	-	896
Collateral received	738	738	-	-	-	-	-
Deposits and other borrowings	133,139	85,087	12,621	11,206	1,544	868	21,813
Derivative financial instruments	7,727	-	-	-	-	-	7,727
Debt issuances	21,502	2,149	4,129	224	3,452	11,548	-
Lease liabilities	262	12	12	24	86	128	-
Other financial liabilities	986	676	-	-	-	-	310
Total financial liabilities	167,058	90,470	16,762	11,454	5,082	12,544	30,746
Hedging instruments	-	19,046	(5,944)	(4,500)	(9,755)	1,153	-
Interest sensitivity gap	13,627	280	(6,896)	20,069	6,739	14,345	(20,910)

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

Reconciliation of mortgage related amounts

As at 30 September 2021	Note	NZ$m
Term loans - housing[1]	11	98,513
Less: fair value hedging adjustment		(2)
Less: housing loans made to corporate customers		(1,433)
On-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	97,078
Add: off-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	9,081
Total residential mortgage exposures subject to the IRB approach (per LVR analysis)	B4	106,159

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

B3. ASSET QUALITY

This section should be read in conjunction with the estimates, assumptions and judgements relating to COVID-19 and ECL included in Note 1, Note 12 and Note 15 to the financial statements.

Movements in components of loss allowance – total

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

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

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

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

Overall, loss allowances are 0.41% of gross balances as at 30 September 2021, down from 0.52% as at 30 September 2020. The NZ$146 million (17.1%) decrease in loss allowances was driven by a decrease in the proportion of gross balances in Stage 2 and Stage 3, and changes in the forward-looking economic scenarios as described in Note 12 Allowance for Expected Credit Losses.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – total

Net loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	164	194	42	97	497
Transfer between stages	25	(30)	4	1	-
New and increased provisions (net of collective provision releases)	(2)	206	34	157	395
Write-backs	-	-	-	(34)	(34)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	23	176	38	101	338
Bad debts written-off (excluding recoveries)	-	-	-	(92)	(92)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(9)	(9)
Sale of UDC	(25)	(23)	(1)	(14)	(63)
As at 30 September 2020	162	347	79	106	694
Off-balance sheet credit related commitments - total					
As at 1 October 2019	60	24	2	11	97
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	17	36	1	11	65
Credit impairment charge	20	33	1	11	65
Sale of UDC	(1)	(2)	-	-	(3)
As at 30 September 2020	79	55	3	22	159

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

Gross loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	123,285	9,008	444	285	133,022
Net transfers in to each stage	12	4,503	472	210	5,197
Amounts drawn from new or existing facilities	34,287	1,375	120	191	35,973
Additions	34,299	5,878	592	401	41,170
Net transfers out of each stage	(5,152)	(45)	-	-	(5,197)
Amounts repaid	(29,444)	(2,574)	(225)	(212)	(32,455)
Deletions	(34,596)	(2,619)	(225)	(212)	(37,652)
Amounts written off	-	-	-	(92)	(92)
Sale of UDC	(2,878)	(447)	(3)	(21)	(3,349)
As at 30 September 2020	120,110	11,820	808	361	133,099
Loss allowance as at 30 September 2020	162	347	79	106	694
Off-balance sheet credit related commitments - total					
As at 1 October 2019	28,491	837	3	19	29,350
Net transfers in to each stage	3	387	7	7	404
New and increased facilities and drawn amounts repaid	9,272	600	16	25	9,913
Additions	9,275	987	23	32	10,317
Net transfers out of each stage	(398)	(6)	-	-	(404)
Reduced facilities and amounts drawn	(7,489)	(198)	(7)	(10)	(7,704)
Deletions	(7,887)	(204)	(7)	(10)	(8,108)
Sale of UDC	(378)	(165)	-	-	(543)
As at 30 September 2020	29,501	1,455	19	41	31,016
Loss allowance as at 30 September 2020	79	55	3	22	159

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

Overall, loss allowances are 0.52% of gross balances as at 30 September 2020, up from 0.37% as at 30 September 2019. The NZ$259 million (43.6%) increase in loss allowances was driven by an increase in the proportion of gross balances in Stage 2 and Stage 3, and changes in the forward-looking economic scenarios and changes in probability weightings.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

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

Off-balance sheet credit related commitments - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2021	-	-	-	-	-

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

Gross loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	81,057	5,859	512	24	87,452
Net transfers in to each stage	3,175	-	-	5	3,180
Amounts drawn from new or existing facilities	33,250	588	5	12	33,855
Additions	36,425	588	5	17	37,035
Net transfers out of each stage	-	(3,164)	(17)	1	(3,180)
Amounts repaid	(22,625)	(1,437)	(144)	(23)	(24,229)
Deletions	(22,625)	(4,601)	(161)	(22)	(27,409)
Amounts written off	-	-	-	-	-
As at 30 September 2021	94,857	1,846	356	19	97,078
Loss allowance as at 30 September 2021	23	53	17	9	102

Off-balance sheet credit related commitments - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2020	8,793	73	-	-	8,866
Net transfers in to each stage	28	-	-	-	28
New and increased facilities and drawn amounts repaid	2,691	12	2	-	2,705
Additions	2,719	12	2	-	2,733
Net transfers out of each stage	-	(28)	-	-	(28)
Reduced facilities and amounts drawn	(2,472)	(17)	(1)	-	(2,490)
Deletions	(2,472)	(45)	(1)	-	(2,518)
Amounts written off	-	-	-	-	-
As at 30 September 2021	9,040	40	1	-	9,081
Loss allowance as at 30 September 2021	-	-	-	-	-

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

While gross balances have increased, there has been a decrease in the proportion of gross balances in Stage 2 and Stage 3. The NZ$18 million (15.0%) decrease in loss allowances on residential mortgage exposures is primarily driven by changes in the forward-looking economic scenarios as described in Note 12 Allowance for Expected Credit Losses. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 94% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80% (refer to page 94).

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

Net loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019 [1]	18	25	12	8	63
Transfer between stages	6	(7)	1	-	-
New and increased provisions (net of collective provision releases)[2]	(4)	45	16	7	64
Write-backs	-	-	-	(4)	(4)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge	2	38	17	3	60
Bad debts written-off (excluding recoveries)	-	-	-	(1)	(1)
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	(2)	(2)
As at 30 September 2020	20	63	29	8	120
Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2019	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2020	-	-	-	-	-

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

Gross loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	79,128	2,475	273	25	81,901
Net transfers in to each stage	-	3,553	272	10	3,835
Amounts drawn from new or existing facilities	23,077	545	59	22	23,703
Additions	23,077	4,098	331	32	27,538
Net transfers out of each stage	(3,835)	-	-	-	(3,835)
Amounts repaid	(17,313)	(714)	(92)	(32)	(18,151)
Deletions	(21,148)	(714)	(92)	(32)	(21,986)
Amounts written off	-	-	-	(1)	(1)
As at 30 September 2020	81,057	5,859	512	24	87,452
Loss allowance as at 30 September 2020	20	63	29	8	120
Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2019	8,232	36	-	-	8,268
Net transfers in to each stage	-	25	-	-	25
New and increased facilities and drawn amounts repaid	1,937	23	-	-	1,960
Additions	1,937	48	-	-	1,985
Net transfers out of each stage	(25)	-	-	-	(25)
Reduced facilities and amounts drawn	(1,351)	(11)	-	-	(1,362)
Deletions	(1,376)	(11)	-	-	(1,387)
As at 30 September 2020	8,793	73	-	-	8,866
Loss allowance as at 30 September 2020	-	-	-	-	-

1 Amounts have been updated to reclassify a total net NZ$14 million relating to corporate previously included in residential mortgages.
2 Amounts have been updated to reclassify NZ$31 million relating to residential mortgages previously included in corporate.

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

While gross balances have increased, and there has been a small increase in the proportion of gross balances in Stage 2 and Stage 3, the NZ$57 million (90.5%) increase in loss allowances on residential mortgage exposures is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 94% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80%.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

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

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

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

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

The NZ$28 million (20.0%) decrease in loss allowances is primarily driven by changes in the forward-looking economic scenarios as described in Note 12 Allowance for Expected Credit Losses.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

Net loans and advances - other retail exposures[1]	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	26	51	24	18	119
Transfer between stages	11	(11)	-	-	-
New and increased provisions (net of collective provision releases)	(9)	30	3	71	95
Write-backs	-	-	-	(11)	(11)
Recoveries of amounts previously written off	-	-	-	(18)	(18)
Credit impairment charge	2	19	3	42	66
Bad debts written-off (excluding recoveries)	-	-	-	(60)	(60)
Add back recoveries of amounts previously written off	-	-	-	18	18
Discount unwind	-	-	-	-	-
Sale of UDC	(17)	(10)	(1)	(10)	(38)
As at 30 September 2020	11	60	26	8	105

Off-balance sheet credit related commitments - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	17	11	2	-	30
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(1)	5	1	-	5
Credit impairment charge	2	2	1	-	5
As at 30 September 2020	19	13	3	-	35

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

Gross loans and advances - other retail exposures[2]	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	4,853	305	45	30	5,233
Net transfers in to each stage	12	-	25	18	55
Amounts drawn from new or existing facilities	1,223	28	13	49	1,313
Additions	1,235	28	38	67	1,368
Net transfers out of each stage	(10)	(45)	-	-	(55)
Amounts repaid	(1,853)	(105)	(31)	(12)	(2,001)
Deletions	(1,863)	(150)	(31)	(12)	(2,056)
Amounts written off	-	-	-	(60)	(60)
Sale of UDC	(1,655)	(18)	(3)	(14)	(1,690)
As at 30 September 2020	2,570	165	49	11	2,795
Loss allowance as at 30 September 2020	11	60	26	8	105

Off-balance sheet credit related commitments - other retail exposures[2]	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	5,222	46	3	-	5,271
Net transfers in to each stage	-	-	4	-	4
New and increased facilities and drawn amounts repaid	450	16	14	-	480
Additions	450	16	18	-	484
Net transfers out of each stage	(1)	(3)	-	-	(4)
Reduced facilities and amounts drawn	(488)	(12)	(6)	-	(506)
Deletions	(489)	(15)	(6)	-	(510)
As at 30 September 2020	5,183	47	15	-	5,245
Loss allowance as at 30 September 2020	19	13	3	-	35

1 Amounts have been updated to reclassify a total net NZ$31 million (2019: NZ$4 million) relating to other retail exposures previously included in corporate.
2 For consistency with capital adequacy classifications, amounts have been updated to reclassify gross loans and advances of NZ$1,179 million (2019: NZ$1,718 million) previously included in corporate and off balance sheet credit related commitments of NZ$635 million to (2019: NZ$644 million from) corporate.

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

The NZ$9 million (6.0%) decrease in loss allowances is primarily driven by the reduction in other retail exposures due to the sale of UDC, partially offset by a small increase in the proportion of gross balances in Stage 2 and Stage 3.

B3. ASSET QUALITY (continued)

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

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

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

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

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

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

The NZ$100 million (16.9%) decrease in loss allowances is primarily driven by changes in the forward-looking economic scenarios as described in Note 12 Allowance for Expected Credit Losses, and a decrease in the proportion of gross balances in Stage 2 and Stage 3.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

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

Net loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019[2]	120	118	6	71	315
Transfer between stages	8	(12)	3	1	-
New and increased provisions (net of collective provision releases)[3]	11	131	15	79	236
Write-backs	-	-	-	(19)	(19)
Recoveries of amounts previously written off	-	-	-	(5)	(5)
Credit impairment charge	19	119	18	56	212
Bad debts written-off (excluding recoveries)	-	-	-	(31)	(31)
Add back recoveries of amounts previously written off	-	-	-	5	5
Discount unwind	-	-	-	(7)	(7)
Sale of UDC	(8)	(13)	-	(4)	(25)
As at 30 September 2020	131	224	24	90	469
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2019	43	13	-	11	67
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	18	31	-	11	60
Credit impairment charge	18	31	-	11	60
Sale of UDC	(1)	(2)	-	-	(3)
As at 30 September 2020	60	42	-	22	124

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

Gross loans and advances - corporate exposures[4]	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	39,304	6,228	126	230	45,888
Net transfers in to each stage	-	950	175	182	1,307
Amounts drawn from new or existing facilities	9,987	802	48	120	10,957
Additions	9,987	1,752	223	302	12,264
Net transfers out of each stage	(1,307)	-	-	-	(1,307)
Amounts repaid	(10,278)	(1,755)	(102)	(168)	(12,303)
Deletions	(11,585)	(1,755)	(102)	(168)	(13,610)
Amounts written off	-	-	-	(31)	(31)
Sale of UDC	(1,223)	(429)	-	(7)	(1,659)
As at 30 September 2020	36,483	5,796	247	326	42,852
Loss allowance as at 30 September 2020	131	224	24	90	469
Off-balance sheet credit related commitments - corporate exposures[4]					
As at 1 October 2019	15,037	755	-	19	15,811
Net transfers in to each stage	3	362	3	7	375
New and increased facilities and drawn amounts repaid	6,885	561	2	25	7,473
Additions	6,888	923	5	32	7,848
Net transfers out of each stage	(372)	(3)	-	-	(375)
Reduced facilities and amounts drawn	(5,650)	(175)	(1)	(10)	(5,836)
Deletions	(6,022)	(178)	(1)	(10)	(6,211)
Sale of UDC	(378)	(165)	-	-	(543)
As at 30 September 2020	15,525	1,335	4	41	16,905
Loss allowance as at 30 September 2020	60	42	-	22	124

1 Also includes all other non-retail exposure classes in net loans and advances and off balance sheet credit related commitments to reconcile to the respective totals for the Banking Group.
2 Amounts have been updated to reclassify aggregate amounts of NZ$14 million from residential mortgages and NZ$4 million to other retail.
3 Amounts have been updated to reclassify aggregate amounts of NZ$31 million to residential mortgages and NZ$27 million to other retail.
4 For consistency with capital adequacy classifications of other retail exposures, amounts have been updated to reclassify gross loans and advances of NZ$1,179 million (2019: NZ$1,718 million) to other retail exposures and off balance sheet credit related commitments of NZ$635 million from (2019: NZ$644 million to) other retail exposures.

B3. ASSET QUALITY (continued)

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

While there has been a small increase in the proportion of gross balances in Stage 3, the NZ$211 million (55.2%) increase in loss allowances is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings, partially offset by the reduction in exposures from the sale of UDC and amounts written-off.

Past due assets

	2021				2020			
	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	402	76	237	715	313	88	549	950
At least 30 days but less than 60 days past due	122	13	157	292	86	15	104	205
At least 60 days but less than 90 days past due	125	8	42	175	106	10	15	131
At least 90 days past due	325	21	26	372	470	35	18	523
Total past due but not individually impaired	**974**	**118**	**462**	**1,554**	975	148	686	1,809

Other asset quality information

Undrawn facilities with impaired customers	-	-	23	23	-	-	41	41
Other assets under administration	2	1	-	3	3	1	-	4

Asset quality for financial assets designated at fair value

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

REGISTERED BANK DISCLOSURES

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

RBNZ capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2021	2020	2021	2020
Common equity tier 1 capital	4.5%	13.4%	11.7%	13.1%	11.3%
Tier 1 capital	6.0%	16.2%	14.4%	15.9%	14.0%
Total capital	8.0%	16.9%	14.4%	16.6%	14.0%
Buffer ratio	2.5%	8.9%	6.4%	n/a	n/a

Capital

As at 30 September 2021	Note	NZ$m
Tier 1 capital		
Common equity tier 1 (CET1) capital		
Paid up ordinary shares issued by the Bank	21	11,588
Retained earnings (net of appropriations)		4,934
Accumulated other comprehensive income and other disclosed reserves[1]	21	70
Less deductions from common equity tier 1 capital		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,091)
Deferred tax assets less deferred tax liabilities relating to temporary differences		(416)
Cash flow hedge reserve		(8)
Defined benefit superannuation plan surplus		(7)
Expected losses to the extent greater than total eligible allowances for impairment		(69)
Common equity tier 1 capital		13,001
Additional tier 1 capital		
Preference shares[2]	21	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[3]	14	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[3]	14	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[3]	14	938
Retained earnings of the Bonus Bonds Scheme[4]		94
Less deductions from additional tier 1 capital		
Surplus retained earnings of the Bonus Bonds Scheme[4]		(83)
Additional tier 1 capital		2,752
Total tier 1 capital		15,753
Tier 2 capital		
NZD 600m subordinated notes[3]		600
Eligible impairment allowance in excess of expected loss		35
Tier 2 capital		635
Total capital		**16,388**

1 Includes the cash flow hedging reserve of NZ$8 million plus the investment securities revaluation reserve of NZ$62 million as at 30 September 2021.
2 Classified as equity on the balance sheet under NZ GAAP.
3 Classified as a liability on the balance sheet under NZ GAAP.
4 Bonus Bonds Scheme is not consolidated on the balance sheet under NZ 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 2021	Total exposures after credit risk mitigation NZ$m	Risk weighted exposure or implied risk weighted exposure[1] NZ$m	Total capital requirement NZ$m
Total credit risk	209,202	62,922	5,034
Operational risk	n/a	10,386	831
Market risk	n/a	6,282	503
Supervisory adjustment	n/a	17,587	1,407
Total	n/a	97,177	7,775

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 2021	Probability of default %	Total value NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted assets NZ$m	Minimum capital requirement NZ$m
Corporate							
0 - 2	0.05	83,763	7,294	62	30	2,328	186
3 - 4	0.31	42,191	22,711	37	39	9,429	754
5	1.01	13,673	11,105	31	55	6,490	519
6	2.30	3,144	2,947	32	73	2,280	182
7 - 8	17.63	1,189	1,146	37	162	1,962	157
Default	100.00	397	390	32	82	341	28
Total corporate exposures[1,2]	1.86	144,357	45,593	39	47	22,830	1,826
Sovereign							
0	0.01	30,940	15,869	5	1	190	15
1 - 8	0.27	52	46	5	4	2	-
Total sovereign exposures	0.01	30,992	15,915	5	1	192	15
Bank							
0	0.03	1	1	65	50	1	-
1	0.03	50,405	3,477	38	20	739	59
2 - 4	0.05	1,628,570	7,015	65	24	1,792	143
5 - 8	5.35	-	-	65	191	-	1
Total bank exposures	0.04	1,678,976	10,493	56	23	2,532	203
Residential mortgages							
0 - 3	0.20	38,811	39,202	12	5	2,251	180
4	0.45	43,820	43,959	20	16	7,347	588
5	0.89	20,057	20,133	24	32	6,745	540
6	1.94	2,897	2,900	26	59	1,805	144
7 - 8	4.67	192	192	25	88	179	14
Default	100.00	382	382	14	7	28	2
Total residential mortgage exposures[3]	0.84	106,159	106,768	18	16	18,355	1,468
Other retail							
0 - 2	0.10	549	551	77	49	289	23
3 - 4	0.26	4,498	4,580	78	55	2,653	212
5	1.10	1,073	1,062	78	83	930	74
6	2.71	641	670	83	108	767	61
7 - 8	8.31	780	810	87	136	1,169	94
Default	100.00	47	47	81	49	24	3
Total other retail exposures	2.02	7,588	7,720	79	71	5,832	467
Total credit risk exposures subject to the IRB approach	1.02	1,968,072	186,489	27	25	49,741	3,979

1 During the year ended 30 September 2021, two immaterial issues impacting the calculation of RWA for corporate exposures were identified. They related to the tenor treatment for performance guarantee products (estimated impact +NZ$106m RWA) and the measurement of security coverage for corporate customers with residential mortgages (estimated impact +NZ$143m RWA). There is no impact on reported capital ratios and remediation is in progress.

2 The supervisory adjustment on the previous page includes NZ$4,721 million of RWA for corporate exposures. This increases the pre-scalar exposure–weighted risk weight to 57% and the minimum capital requirement to NZ$2,204 million.

3 The supervisory adjustment on the previous page includes NZ$12,866 million of RWA for residential mortgage exposures. This increases the pre-scalar exposure-weighted risk weight to 28% and the minimum capital requirement to NZ$2,497 million.

REGISTERED BANK DISCLOSURES

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

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

As at 30 September 2021	Total value NZ$m	Exposure at default NZ$m
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	12,599	11,835
Sovereign	82	77
Bank	1,234	1,084
Residential mortgages	9,081	9,532
Other retail	5,142	5,216
Market related contracts		
Corporate	99,897	1,891
Sovereign	15,006	95
Bank	1,672,023	4,380
Residential mortgages	-	-
Other retail	-	-

Additional mortgage information

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

As at 30 September 2021	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	50,774	6,507	57,281
Exceeds 60% and not 70%	19,919	1,198	21,117
Exceeds 70% and not 80%	20,866	1,025	21,891
Does not exceed 80%	91,559	8,730	100,289
Exceeds 80% and not 90%	3,888	123	4,011
Exceeds 90%	1,631	228	1,859
Total	97,078	9,081	106,159

Specialised lending subject to the slotting approach

As at 30 September 2021	Total exposures after credit risk mitigation NZ$m	Risk weight %	Risk weighted assets NZ$m	Minimum Pillar 1 capital requirement NZ$m
On-balance sheet exposures				
Strong	6,222	70	4,617	369
Good	5,142	90	4,905	392
Satisfactory	300	115	366	29
Weak	100	250	264	23
Default	4	-	-	-

As at 30 September 2021	Exposure at default NZ$m	Average risk weight %	Risk weighted assets NZ$m	Minimum Pillar 1 capital requirement NZ$m
Off-balance sheet exposures				
Undrawn commitments and other off-balance sheet exposures	1,407	85	1,271	101

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

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

Credit risk exposures subject to the standardised approach

As at 30 September 2021	Total exposure after credit risk mitigation NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
On-balance sheet exposures				
Cash and gold bullion	163	-	-	-
Sovereign and central banks	6,697	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	331	17	60	5
Residential mortgages	-	-	-	-
Past due assets	-	-	-	-
Other assets	1,119	100	1,187	95

As at 30 September 2021	Total exposure or principal amount NZ$m	Average credit conversion factor %	Credit equivalent amount NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Off-balance sheet exposures						
Undrawn commitments and other off-balance sheet exposures	578	68	394	98	411	33
Market related contracts						
Foreign exchange contracts	-	n/a	-	-	-	-
Interest rate contracts	981,962	n/a	833	11	95	8
Other - OTC etc	727	n/a	-	2	-	-

Equity exposures

As at 30 September 2021	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-

Credit risk mitigation

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

As at 30 September 2021	For portfolios subject to the standardised approach: total value of exposures covered by eligible financial collateral (after haircut) NZ$m	For all portfolios: total value of exposures covered by guarantees or credit derivatives[1] NZ$m
Exposure class		
Sovereign	-	-
Bank	-	-
Corporate (including specialised lending)	-	843
Residential mortgage	-	-
Other	-	-

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

REGISTERED BANK DISCLOSURES

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

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 30 September 2021, the Banking Group had an implied risk weighted exposure of NZ$10,386 million for operational risk and an operational risk capital requirement of NZ$831 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 2021.

	Implied risk weighted exposure		Aggregate capital charge	
As at 30 September 2021	Period end NZ$m	Peak NZ$m	Period end NZ$m	Peak NZ$m
Interest rate risk	6,260	10,950	501	876
Foreign currency risk	21	21	2	2
Equity risk	1	1	-	-

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. The Banking Group's ICAAP identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. Other material risks identified by the Banking Group include fixed asset risk and deferred acquisition cost risk. The Banking Group's internal capital allocation for these other material risks is NZ$313 million (2020: NZ$335 million, updated from NZ$293 million for revised methodology).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2021	2020	2021	2020
Common equity tier 1 capital	12.3%	11.3%	12.0%	11.2%
Tier 1 capital	14.3%	13.2%	14.1%	13.2%
Total capital	18.4%	16.4%	18.6%	16.7%

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

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

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 30 September 2021 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2021. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2021, in accordance with APS 330: *Public Disclosure of Prudential Information*, discloses capital adequacy ratios and other prudential information. This document can be accessed at the website anz.com.

Regulatory liquidity ratios

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

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. From 2 April 2020, the minimum amount of core funding was lowered from 75% to 50% of a bank's total loans. The Banking Group must maintain its core funding ratio above the regulatory minimum on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 21	30 Jun 21
Quarterly average 1-week mismatch ratio	7.1%	7.3%
Quarterly average 1-month mismatch ratio	6.5%	6.5%
Quarterly average core funding ratio	89.3%	89.4%

B5. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

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

The exposure information in the table below excludes exposures to:

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

	As at 30 Sep 21	Peak end of day over 6 months to 30 Sep 21
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	1	1
with a long-term credit rating of A- or A3 or above, or its equivalent	1	1
- 10% to less than 15% of CET1 capital	1	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1	2	3
with a long-term credit rating of A- or A3 or above, or its equivalent	2	3
- 10% to less than 15% of CET1 capital	2	2
- 30% to less than 35% 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	-	-

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 2021				
Gross amount, before netting	11,912	75.6%	<$1m	0.0%
Amount netted	8,587	54.5%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	3,325	21.1%	<$1m	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2021				
Gross amount, before netting	11,707	74.3%	<$1m	0.0%
Amount netted	8,232	52.3%	-	0.0%
Aggregate credit exposure (on partial bilateral net basis)	3,475	22.1%	<$1m	0.0%

Credit exposures to connected persons

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

Peak end-of-day aggregate exposure

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

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2021 was 60%. No limit changes have occurred over the year to 30 September 2021. 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$219 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 2021.

Loss allowance for credit-impaired credit exposures to connected persons

There were no loss allowances provided against credit exposures to connected persons as at 30 September 2021.

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

Insurance business

The Banking Group does not conduct any insurance business.

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

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

Activity	Details
Custodial	The Banking Group operates two custodians as at 30 September 2021: • ANZ Custodial Services New Zealand Limited, which is the appointed custodian for private banking's (ANZ Private) Discretionary Investment Management Service, Wholesale Investment Services and Trading Service; and • ANZ New Zealand Investments Nominees Limited, which is the appointed custodian for direct holdings of securities by various wholesale customer portfolios managed by ANZ New Zealand Investments Limited (ANZ Investments).
Funds management	The Banking Group provides the following funds management services: • *Managed Investment Schemes (MIS):* The Banking Group's subsidiaries ANZ Investments and ANZ Investment Services (New Zealand) Limited (ANZIS) act as manager for a number of managed investment schemes. ANZ Investments holds an MIS Manager licence, with ANZIS being an authorised body under that licence. ANZ Investments is the issuer and manager of ANZ and OneAnswer-branded KiwiSaver, retail and wholesale schemes. ANZIS is the issuer and manager of the Bonus Bonds Scheme and the ANZ PIE Fund. ANZ National Staff Superannuation Limited, also a subsidiary of the Banking Group, is the trustee and manager of the ANZ National Retirement Scheme, which is a restricted workplace savings scheme. • *Discretionary Investment Management Service (DIMS):* The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. • *Other investment portfolios:* ANZ Investments also manages investment portfolios for a number of schemes where the scheme manager or trustee has outsourced investment management services to ANZ Investments. These schemes are typically corporate superannuation schemes.
Other fiduciary activities	ANZ Investments, through its subsidiary OneAnswer Nominees Limited, offers the OneAnswer Portfolio Service. The associated administration and custody services are provided by FNZ Limited and FNZ Custodians Limited respectively (together FNZ). FNZ is not a member or related party of the Banking Group.

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

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

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

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

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

Arrangements to ensure no adverse impacts arising from the above activities

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

REGISTERED BANK DISCLOSURES

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

Amounts represented by funds management and securitisation activities

	2021 NZ$m	2020 NZ$m
Funds under management:		
KiwiSaver[1]	19,051	16,417
Bonus Bonds Scheme[2]	872	2,071
Other managed funds[1]	3,842	2,701
ANZ PIE Fund[2]	1,724	2,309
DIMS[3]	8,868	8,087
Other investment portfolios[4]	4,686	3,638
Total funds under management	39,043	35,223
Funds under custodial arrangements	8,942	8,353
Other funds held or managed subject to fiduciary responsibilities[5]	1,811	1,491
Outstanding securitised assets originated by the Banking Group - carrying amount of covered bonds	4,248	4,522

1 Managed by ANZ Investments.
2 Managed by ANZIS.
3 Managed by the Bank.
4 Comprises portfolios managed by ANZ Investments, and the ANZ National Retirement Scheme managed by ANZ National Staff Superannuation Limited.
5 Not included in funds under management.

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 2021, 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 2021 was NZ$0.1 million (2020: NZ$0.1 million) which was 0.0% (2020: 0.0%) of the Banking Group's tier 1 capital and 0.1% (2020: 0.1%) of the total assets of the individual entity. Comparative amounts have been updated to include undrawn facilities.

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 COVID-19 pandemic has continued to impact our operating environment. Our Risk Management Framework has underpinned our response during this challenging time and has enabled us to maintain sound risk management practices.

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

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

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

Key Material Risks

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

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

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Managing the Risk
Market Risk	The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • fluctuations in bond, commodity or equity prices.	We have a detailed risk management and control framework to support our trading and balance sheet activities, which incorporates an independent risk measurement approach to quantify the magnitude of market risk within the trading and balance sheet portfolios. This approach, along with related analysis, identifies the range of possible outcomes, that can be expected over a given period of time, and establishes the likelihood of those outcomes and allocates an appropriate amount of capital to support these activities. The Banking Group's key tools to measure and manage Market Risk on a daily basis include value at risk, earnings at risk, interest rate sensitivities, market value loss limits and stress testing.
Operational Risk	The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and/or systems; but excludes strategic risk.	The Banking Group foundational operational risk policy is the Operational Risk Approach. The Operational Risk Approach and its supporting requirements includes management and measurement of operational risks and compliance with laws, regulations, industry standards, codes and principles of good governance, and internal policies and procedures. The Banking Group takes a risk-based approach to the management of operational risk and obligations. This enables the Banking Group to be consistent in proactively identifying, assessing, managing, reporting and escalating operational risk-related risk exposures.
	Compliance Risk The risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to the Banking Group's businesses.	Key features of how we manage Compliance Risk as part of our Operational Risk and Compliance Framework include: • centralised management of key obligations, and emphasis on identification of changing regulations and the business environment, to enable proactive assessment of emerging compliance risk; and • recognition of incident management as a separate element to enhance the Banking Group's ability to identify, manage and report on incidents/breaches in a timely manner.
	Conduct Risk The risk of loss or damage arising from the failure of the Banking Group, its employees or agents to appropriately consider the interests of customers, the integrity of the financial markets and the expectations of the community in conducting its business activities. The risk may arise not only from deliberate or negligent actions of individual employees, but may also be inadvertent and caused by inadequacies in the Banking Group's systems, processes and procedures.	Our approach to managing Conduct Risk is to seek to ensure that risks to customers, community and market integrity are identified, assessed, treated, monitored and reported in a structured environment with appropriate governance oversight.
	Technology Risk The risk of loss and/or non-compliance with laws from inadequate or failed internal processes, people or systems that deliver technology assets and services to customers and staff. This risk includes technology assets and services delivered or managed by third parties, and external events. The risk specifically includes information security and cyber security and how information held by the Banking Group needs to be protected from inappropriate modification, loss, disclosure and unavailability.	Our approach to managing Technology Risk is to manage our operational risks caused by the use of technology, including risks associated with cyber security and third party providers, in a manner that seeks to ensure customer information is secure and service disruption is within acceptable levels.

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

B8. RISK MANAGEMENT POLICIES (continued)

Other Material Risks

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

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

Capital adequacy
Refer to Note 22 Capital Management for the disclosures required under NZ IAS 1 *Presentation of financial statements*.

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

Internal Audit Function of the Banking Group
The Banking Group has an Internal Audit Function, refer to Note 15 Financial Risk Management for details.

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

The Audit Committee is also responsible for:
- the appointment, annual evaluation and oversight of the external auditor;
- annual review of the independence, fitness and propriety, and qualifications of the external auditor;
- compensation of the external auditor; and
- where deemed appropriate, replacement of the external auditor.

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

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

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

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

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

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Additional information about credit risk

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

The Banking Group adheres to the standards of risk grading and risk quantification as set out for IRB banks in the RBNZ 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).

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

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 BS2B	Standardised
Equity		Required by BS2B	Standardised
Other assets	All other assets not falling within any of the above classes	Required by BS2B	Standardised

Controls surrounding credit risk rating systems

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

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

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

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

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

DIRECTORS' STATEMENT

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

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

Over the year ended 30 September 2021, after due enquiry, each Director believes that:

- ANZ Bank New Zealand Limited has complied in all material respects with each condition of registration that applied during that period except as noted on page 79[1];
- Credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

1. In accordance with the Order, ANZ Bank New Zealand Limited has complied in all material respects with each of its conditions of registration that applied during the period if the RBNZ has not published any information about a breach on its website, and has not notified ANZ Bank New Zealand Limited of any material breach.

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 10 November 2021.

Maile Carnegie

Shayne Elliott

Alison Gerry

Rt Hon Sir John Key, GNZM AC

Scott St John

Mark Verbiest

Antonia Watson

Joan Withers

INDEPENDENT AUDITOR'S REPORT

KPMG

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE AUDIT OF THE BANKING GROUP'S DISCLOSURE STATEMENT

OPINION

We have audited the accompanying consolidated financial statements and registered bank disclosures of ANZ Bank New Zealand Limited and its related entities (the Banking Group) in section B2, B3, B5, B6, B7 and B8 which comprise:

- the consolidated balance sheet as at 30 September 2021;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

In our opinion, the accompanying consolidated financial statements on pages 4 to 69:

- give a true and fair view of the Banking Group's financial position as at 30 September 2021 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

In our opinion, the registered bank disclosures that are required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order are included in section B2, B3, B5, B6, B7 and B8 of the Disclosure Statement:

- have been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the 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 they relate in accordance with those Schedules.

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

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

BASIS FOR OPINION

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

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

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

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

EMPHASIS OF MATTER - NON-COMPLIANCE WITH CERTAIN CONDITIONS OF REGISTRATION

We draw attention to section B1 of the Disclosure Statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to Capital adequacy.

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

Our opinion on the consolidated financial statements and registered bank disclosures in sections B2, B3, B5, B6, B7 and B8 is not modified in respect of these matters.

KEY AUDIT MATTERS

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

Key changes in the assessment of audit risks

COVID-19

The COVID-19 pandemic continues to have an unprecedented and ongoing impact on global markets and the local economy, with effects on the Banking Group's customers, operations and performance. There is an elevated level of estimation uncertainty in the preparation of the Banking Group's consolidated financial statements, where certain accounting estimates are based on forecasts of economic conditions and forward-looking assumptions. There is a considerable degree of judgement involved in preparing these estimates. The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to the "Allowance for Expected Credit Losses" and the "Carrying Value of Goodwill", both detailed below. The elevated level of estimation uncertainty in these areas has informed our assessment of a continued and heightened underlying audit risk in these areas and an increase in the extent and nature of audit evidence that we had to gather.

ALLOWANCE FOR EXPECTED CREDIT LOSSES ($707 MILLION)

Refer to the critical accounting estimates, judgements and disclosures in relation to the allowance for expected credit losses in Note 12 to the Consolidated Financial Statements.

The key audit matter

Allowance for expected credit losses is a key audit matter due to the significance of the loans and advances balance to the consolidated financial statements and the inherent complexity of the Banking Group's Expected Credit Loss (ECL) models used to measure ECL allowances. These models are reliant on data and a number of estimates including impacts of multiple economic scenarios, and other assumptions such as defining a Significant Increase in Credit Risk (SICR) which in a COVID-19 environment have greater uncertainties.

NZ IFRS 9 requires the Banking Group to measure ECL on a forward-looking basis reflecting a range of future economic conditions, of which GDP and unemployment levels are considered key assumptions. Post-model adjustments to the ECL results are also made by the Banking Group to address known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging both the economic scenarios used and the judgemental overlays that the Banking Group applies to the ECL results.

The Banking Group's criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within the Banking Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Banking Group in calculating the ECL, and the associated audit risk.

Additionally, the determination of an allowance for individually assessed impairment on Business and Institutional (wholesale) loans requires significant judgement in estimating the expected future cash repayments and proceeds from the value of the collateral held in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures included assessing the Banking Group's significant accounting policies against the requirements of the accounting standard. KPMG Financial Risk Management and Economic specialists were used in ECL audit procedures as a core part of our audit team.

We tested key controls in relation to:

- The Banking Group's ECL model governance and validation processes which involved assessment of model performance;
- The Banking Group's assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by the Banking Group's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against the Banking Group's lending policies, and controls over the monitoring of counterparty credit quality; and
- The Banking Group's oversight of the portfolios, with a focus on controls over delinquency monitoring.

We also tested relevant General Information Technology Controls over the key IT applications used by the Banking Group in measuring ECL allowances, as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Re-performing credit assessments of a sample of wholesale loans controlled by the Banking Group's specialist workout and recovery team, who assessed these as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considered the impacts of COVID-19). For each loan sampled, we challenged the Banking Group's CCR and Security Indicator, assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we reviewed the information on the Banking Group's loan file, understood the facts and circumstances of the case with the relationship manager, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment, and comparing data and assumptions used by the Banking Group in recoverability assessments to externally sourced evidence, such external property sale information;
- Obtaining an understanding of the Banking Group's processes to determine ECL allowances, evaluating the Banking Group's ECL model

INDEPENDENT AUDITOR'S REPORT

methodologies against established market practices and criteria in the accounting standards;
- Working with KPMG Financial Risk Management specialists, we assessed the accuracy of the Banking Group's ECL model estimates by re-performing, for a sample of loans, the ECL allowance using our independently driven calculation tools and comparing this to the amount recorded by the Banking Group;
- Working with our KPMG Economic specialists, we challenged the Banking Group's forward-looking macroeconomic assumptions and scenarios incorporated in the Banking Group's ECL models. We compared the Banking Group's forecast GDP and unemployment rates, to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the Banking Group's SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements in the CCR from loan origination CCR and comparing our expectation to actual staging applied on an individual account level in the Banking Group's ECL model; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of the Banking Group's post-model adjustments to the ECL allowance balance. This included:

- Assessing the requirement for additional allowances considering the Banking Group's ECL model and data deficiencies identified by the Banking Group's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by COVID-19 and government responses;
- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the impacts on the modelled ECL and the requirement for out of model adjustments. We also assessed assumptions used to determine whether a SICR event has occurred; and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Banking Group's assessment.

We assessed the appropriateness of the Banking Group's disclosures in the consolidated financial statements using our understanding obtained from our testing and against the requirements of NZ IFRS.

VALUATION OF FINANCIAL INSTRUMENTS

Fair value of Level 2 financial instruments in asset positions $10,593 million

Fair value of Level 2 financial instruments in liability positions $12,155 million

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 16 to the Consolidated Financial Statements.

The key audit matter

The fair value of the Banking Group's financial instruments is determined by the Banking Group through the application of valuation techniques which often involve the exercise of judgement and the use of assumption and estimates.

The valuation of Level 2 financial instruments held at fair value is a key audit matter due to the complexity associated with the valuation methodology and models of certain more complex Level 2 financial instruments leading to an increase in subjectivity and estimation uncertainty. Level 2 financial instruments represent 35% of the Banking Group's financial assets carried at fair value and 95% of the Banking Group's financial liabilities carried at fair value.

How the matter was addressed in our audit

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

Performing an assessment of the population of financial instruments held at fair value to identify portfolios that have a higher risk of misstatement arising from significant judgment over valuation either due to unobservable inputs or complex models.

We tested the design and operating effectiveness of key controls relating specifically to these financial instruments, including:

- The Banking Group's data validation controls in relation to Independent Price Verification, including completeness of portfolios and valuation inputs;
- Controls in relation to model validation at inception and periodically, including assessment of model limitation and assumptions;
- Controls in relation to the review and challenge of daily profit and loss by a control function;
- Control over the collateral management process, including review of margin reconciliations with clearing houses; and
- Controls over fair value adjustments (FVAs), including exit price and portfolio level adjustments.

With the assistance of KPMG valuation specialists, we independently revalued a selection of financial instruments and FVAs on level 2 instruments. This involved sourcing independent inputs from market data providers or external sources and using our own valuation models. We challenged the Banking Group where our revaluations significantly differed from the Banking Group's.

We assessed the Banking Group's consolidated financial statement disclosures, including key judgements and assumptions using our understanding obtained from our testing and against NZ IFRS.

IT SYSTEMS AND CONTROLS

The key audit matter

As a major New Zealand bank, the Banking Group's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. 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.

How the matter was addressed in our audit

We tested the control environment for key IT applications used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT environment, including the approach to the Banking Group policy design, review and awareness;
- Design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each IT application and the supporting infrastructure;
- Design and operating effectiveness testing of controls in place over change management, including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT applications. We also assessed the appropriateness of users with access to make changes to IT applications across the Banking Group;
- Design and operating effectiveness testing of controls used by the Banking Group's technology teams to schedule system jobs and monitor system integrity;
- Design and operating effectiveness testing of controls related to significant IT application programs per the ANZ Delivery Framework; and
- Design and operating effectiveness testing of automated business process controls including those that enforce segregation of duties between conflicting roles within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls (both between systems, and intra-system) and data integrity of critical system reporting used by us in our audit to select samples and analysis data used by management to generate financial reporting.

PROVISION FOR CUSTOMER REMEDIATION ($98 MILLION)

Refer to the critical accounting estimates, judgements and disclosures in Note 20 to the Consolidated Financial Statements.

The key audit matter

The Banking Group has assessed the need to recognise provisions in relation to certain customer remediation activities arising from both internal and external investigations, and reviews. This includes provisions for expected refunds to customers and other counterparties, remediation project costs and related customer, counterparty and regulatory claims, penalties, and litigation outcomes.

The provision for customer remediation is a key audit matter due to the judgements required in assessing the Banking Group's determination of:

- The existence of a present legal or constructive obligation arising from a past event using the conditions of the event against the criteria in the accounting standards;
- The number of investigations and the quantum of amounts being paid arising from the present obligations;
- Reliable estimates of the amounts that may be paid arising from investigations, including estimates of related costs; and
- The potential for legal proceedings, further investigations, and reviews from its regulators leading to a wider range of estimation outcomes for us to consider.

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

- Obtaining an understanding of the Banking Group's processes for identifying and assessing the potential impact of the investigations into customer remediation payments, related project costs and legal proceedings associated with compliance matters, investigations and reviews from its regulators;
- Enquiring with the Banking Group regarding ongoing legal, and regulatory matters, and investigation into other remediation activities;
- Enquiring with external legal counsel;
- Reading the minutes and other relevant documentation of ANZ Bank New Zealand Limited's Board of Directors and various management committees, and attending ANZ Bank New Zealand Limited's Audit and Risk Committee meetings;
- Inspecting correspondence with relevant regulatory bodies;
- For a sample of individual matters, assessing the basis for recognition and measurement of a provision and associated costs against the requirements of the accounting standards. We did this by understanding and challenging the provisioning methodologies and underlying assumptions;
- Testing completeness by evaluating all current customer remediation matters identified by the Banking Group and checking the features of these exposures against the criteria defining a provision or a contingency in the accounting standards; and
- Evaluating the related disclosures using our understanding obtained from our testing and against the requirements of NZ IFRS.

CARRYING VALUE OF GOODWILL ($3,006 MILLION)

Refer to the critical accounting estimates, judgements and disclosures in Note 19 to the Consolidated Financial Statements.

The key audit matter

Carrying value of goodwill is a key audit matter where there are a number of judgements required in the determination of the recoverable amount of goodwill, and where the carrying value of goodwill is financially significant at the reporting date.

The Banking Group uses a value-in-use (VIU) approach to estimate the recoverable amount of each Cash Generating Unit (CGU) to which goodwill is allocated. The reasonableness of the recoverable amounts was assessed using an implied market-multiples approach.

The ongoing effects and uncertainties associated with the COVID-19 pandemic continue to increase the potential for impairment and our audit effort in this area remains elevated. There is increased judgement in forecasting cash flows and assumptions used in the discounted cash flow models and

INDEPENDENT AUDITOR'S REPORT

market-multiples used in the reasonableness assessment.

We focused on the significant forward-looking assumptions the Banking Group applied as part of its annual impairment test as at 28 February 2021, including:

- Revenue growth rates, and terminal growth rates in the VIU model. Available headroom for some CGUs is sensitive to small changes in these assumptions, reducing available headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application to the Banking Group's strategy; and
- Discount rates in the VIU model and the control premium in the market-multiples reasonableness assessment. These are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time.

How the matter was addressed in our audit

We involved valuation specialists to supplement our senior team members in assessing this key audit matter.

Working with our valuation specialists, our procedures included:

- In accordance with accounting standards, assessing the reasonableness of the amounts allocated to the CGUs to which the Banking Group allocated goodwill;
- Considering the appropriateness of the valuation method applied by the Banking Group to perform their annual test for impairment against the requirements of the accounting standards;
- Assessing the integrity of the VIU model used by the Banking Group, including the accuracy of the underlying calculation formulae;
- Assessing the accuracy of previous Banking Group forecasts to inform our evaluation of forecasts incorporated in the VIU model;
- For each CGU, assessing the Banking Group's key assumptions used in the VIU model, including discount rates, revenue growth rates, and terminal growth rates by comparing to external observable metrics, historical experience, our knowledge of the markets and current market practice;
- Stress testing key VIU assumptions to consider reasonably possible alternatives;
- Comparing the forecast cash flows contained in the model to the revised Operational forecast, reflecting the continued low interest rate environment, the increased regulatory minimum capital requirements and COVID-19 impacts;
- Assessing key assumptions used in the market-multiples reasonableness assessment, which we assessed as being equivalent to a fair value less costs of disposal approach. These assumptions included future maintainable earnings, the control premium comparing the implied multiples from comparable market transactions to the implied multiples used in the VIU model;
- Determining whether there is sufficient appropriate evidence to support the Banking Group's conclusion that there is no impairment in goodwill associated with any CGU;
- Assessing the reasonableness of the Banking Group's review for potential internal and external indicators of impairment. This review considered the period from the annual impairment test as at 28 February 2021 up to financial year end; and
- Assessing the disclosures in the financial statements against the requirements of the accounting standards.

OTHER INFORMATION

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

Our opinion on the consolidated financial statements does not cover section B1 (referred to as 'other information') and we do not express any form of assurance conclusion thereon.

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND REGISTERED BANK DISCLOSURES IN SECTION B1, B2, B3, B5, B6, B7 AND B8

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

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZ IFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

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

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

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

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

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

Based on our review, with the exception of the matter described below, nothing has come to our attention that causes us to believe that the information relating to capital adequacy and regulatory liquidity ratios, disclosed in section B4 of the 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 2021, which are required to be disclosed in accordance with Schedule 11 of the Order.

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

A review of the registered bank disclosures in section B4 in accordance with NZ SRE 2410 *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.

As described in section B1, the Banking Group has previously identified that it was not compliant with Condition of Registration 1B in relation to the implementation of 17 rating models and processes that were not approved by the Reserve Bank of New Zealand (the RBNZ). As at 30 September 2021, 16 of these models had been submitted to the RBNZ for approval, with four of these approved. Nine models were approved in October 2021, subsequent to the reporting date. The four remaining unapproved models are Bank rating; Project and structured finance; Commercial property: hotels; and Commercial property: special purpose asset investment.

In this respect, the Capital Adequacy Ratios disclosed in section B4 of the Disclosure Statement have not been disclosed in accordance with Schedule 11 of the Order. Section B1 outlines the Banking Group's assessment of the historic impact on risk weighted assets at the time this matter was first reported in the Banking Group's disclosure statement. The Banking Group is working with the RBNZ to remediate this matter.

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

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RESPONSIBILITIES OF DIRECTORS FOR THE REGISTERED BANK DISCLOSURES IN SECTION B4

The Directors, on behalf of the Banking Group, are responsible for the preparation of the registered bank disclosures in section B4, that is required to be prepared in accordance with Schedule 11 of the Order.

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

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

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

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

USE OF THIS INDEPENDENT AUDITOR'S REPORT

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

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

For and on behalf of

KPMG

KPMG
Auckland

10 November 2021

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