27 May 2020

Market Announcements Office
ASX Limited
Level 4
20 Bridge Street
SYDNEY NSW 2000

ANZ Bank New Zealand Limited
Registered Bank Disclosure Statement

Attached is the ANZ Bank New Zealand Limited Registered Bank Disclosure Statement for the six months ended 31 March 2020.

Yours faithfully

Simon Pordage
Company Secretary
Australia and New Zealand Banking Group Limited

ANZ BANK NEW ZEALAND LIMITED
REGISTERED BANK DISCLOSURE STATEMENT

FOR THE SIX MONTHS ENDED 31 MARCH 2020
NUMBER 93 | ISSUED MAY 2020

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

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DISCLOSURE STATEMENT

GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

Banking Group, 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.

UDC means UDC Finance Limited.

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

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

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

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

INTERIM FINANCIAL STATEMENTS

INCOME STATEMENT

For the six months ended 31 March	Note	2020 NZ$m	2019 NZ$m
Interest income		2,998	3,284
Interest expense		(1,332)	(1,652)
Net interest income		1,666	1,632
Other operating income	2	483	395
Net income from insurance business		-	27
Share of associates' profit		-	4
Operating income		2,149	2,058
Operating expenses	3	(836)	(744)
Profit before credit impairment and income tax		1,313	1,314
Credit impairment charge	7	(233)	(34)
Profit before income tax		1,080	1,280
Income tax expense		(296)	(331)
Profit for the period		784	949

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
Profit for the period	784	949
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	(17)	(16)
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(65)	-
Realised losses transferred to the income statement	14	4
Income tax attributable to the above items	19	3
Other comprehensive income after tax	(49)	(9)
Total comprehensive income for the period	735	940

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

INTERIM FINANCIAL STATEMENTS

BALANCE SHEET

As at	Note	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Assets			
Cash and cash equivalents	5	7,746	2,363
Settlement balances receivable		404	193
Collateral paid		2,527	2,324
Trading securities		11,679	8,942
Derivative financial instruments		13,216	11,666
Investment securities		7,293	7,027
Net loans and advances	6	135,355	132,525
Deferred tax assets		283	77
Goodwill and other intangible assets		3,267	3,276
Premises and equipment		620	335
Other assets		670	688
Total assets		183,060	169,416
Liabilities			
Settlement balances payable		2,265	1,607
Collateral received		1,290	991
Deposits and other borrowings	8	121,040	113,427
Derivative financial instruments		12,680	11,042
Current tax liabilities		92	101
Payables and other liabilities		1,191	1,159
Employee entitlements		145	138
Other provisions	9	330	314
Debt issuances	10	28,883	26,207
Total liabilities		167,916	154,986
Net assets		15,144	14,430
Equity			
Share capital		11,888	11,888
Reserves		(15)	21
Retained earnings		3,271	2,521
Total equity		15,144	14,430

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

CASH FLOW STATEMENT

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
Profit after income tax	784	949
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation and amortisation	69	41
Loss on sale and impairment of premises and equipment	-	5
Net derivatives/foreign exchange adjustment	1,260	(13)
Proceeds from divestments net of intangibles disposed of, classified as investing activities	-	(646)
Other non-cash movements	117	(147)
Net (increase)/decrease in operating assets:		
Collateral paid	(203)	(451)
Trading securities	(2,737)	481
Net loans and advances	(2,830)	(3,644)
Other assets	(399)	611
Net increase/(decrease) in operating liabilities:		
Deposits and other borrowings	7,613	2,957
Settlement balances payable	658	458
Collateral received	299	(326)
Other liabilities	(278)	(398)
Total adjustments	3,569	(1,072)
Net cash flows from operating activities[1]	4,353	(123)
Cash flows from investing activities		
Investment securities:		
Purchases	(1,050)	(1,054)
Proceeds from sale or maturity	768	1,288
Proceeds from divestments	-	747
Other assets	(21)	(51)
Net cash flows from investing activities	(303)	930
Cash flows from financing activities		
Debt issuances[2]		
Issue proceeds	2,327	3,240
Redemptions	(966)	(3,145)
Repayment of lease liabilities[3]	(24)	-
Dividends paid	(4)	(405)
Net cash flows from financing activities	1,333	(310)
Net change in cash and cash equivalents	5,383	497
Cash and cash equivalents at beginning of period	2,363	2,200
Cash and cash equivalents at end of period	7,746	2,697

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

2 Movement in debt issuances (Note 10 Debt Issuances) also includes a NZ$901 million increase (2019: NZ$883 million decrease) from the effect of foreign exchange rates, a NZ$320 million increase (2019: NZ$341 million increase) from changes in fair value hedging instruments and a NZ$94 million increase (2019: NZ$90 million decrease) from other changes.

3 Relates to repayments of lease liabilities which the Banking Group commenced recognising on 1 October 2019 following the adoption of NZ IFRS 16. Comparative information has not been restated.

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

INTERIM FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Investment securities revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 2018		11,888	11	22	1,188	13,109
Impact on transition to NZ IFRS 9 *Financial Instruments*		-	-	-	(52)	(52)
As at 1 October 2018 (adjusted)		11,888	11	22	1,136	13,057
Profit or loss		-	-	-	949	949
Unrealised gains / (losses) recognised directly in equity		-	(7)	7	-	-
Realised losses transferred to the income statement		-	-	4	-	4
Actuarial loss on defined benefit schemes		-	-	-	(16)	(16)
Income tax credit / (expense) on items recognised directly in equity		-	2	(3)	4	3
Total comprehensive income for the period		-	(5)	8	937	940
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid		-	-	-	(400)	(400)
Preference dividends paid		-	-	-	(5)	(5)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(405)	(405)
As at 31 March 2019		11,888	6	30	1,668	13,592
As at 1 October 2019		11,888	(6)	27	2,521	14,430
Impact on transition to NZ IFRS 16 *Leases*	1	-	-	-	(17)	(17)
As at 1 October 2019 (adjusted)		11,888	(6)	27	2,504	14,413
Profit or loss		-	-	-	784	784
Unrealised losses recognised directly in equity		-	(38)	(27)	-	(65)
Realised losses transferred to the income statement		-	-	14	-	14
Actuarial loss on defined benefit schemes		-	-	-	(17)	(17)
Income tax credit on items recognised directly in equity		-	11	4	4	19
Total comprehensive income for the period		-	(27)	(9)	771	735
Transactions with Immediate Parent Company in its capacity as owner:						
Preference dividends paid		-	-	-	(4)	(4)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(4)	(4)
As at 31 March 2020		11,888	(33)	18	3,271	15,144

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

These financial statements comply with:

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

Presentation currency and rounding

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

Basis of measurement

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

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

Use of estimates, assumptions and judgements

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

A brief explanation of the key estimates, assumptions and judgements that have changed during the half year ended 31 March 2020 follows:

Coronavirus (COVID-19) pandemic

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

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

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

Allowance for expected credit losses

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

The table below shows the Banking Group's allowance for ECL (refer to Note 7 and Note 11 for further information).

As at	Mar 20 NZ$m	Sep 19 NZ$m
Individually assessed	98	108
Collectively assessed	675	486
Total[1]	773	594

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

Individually assessed ECL

In estimating individually assessed ECL for Stage 3 exposures, the Banking Group makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, the business prospects for the customer, competing claims and the likely cost and duration of the work-out process. Judgements and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

Collectively assessed ECL

During the six months ended 31 March 2020 the collectively assessed allowance for ECL increased by NZ$189 million. This was attributable to changes in economic outlook of NZ$168 million and changes in portfolio composition and risk of NZ$21 million.

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

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

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

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

The following table summarises the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs, and highlights significant changes during the six months ended 31 March 2020.

The judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Banking Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement/assumption	Description	Changes and considerations during the six months ended 31 March 2020
Determining when a significant increase in credit risk (SICR) has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from 'stage 1' to 'stage 2'. This is a key area of judgement since transition from stage 1 to stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime ECL. Subsequent decreases in credit risk resulting in transition from stage 2 to stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance.	Various initiatives, such as payment deferrals have been offered to customers in the six months ended 31 March 2020 recognising the potential detrimental impact of COVID-19. Such offers, if accepted, are not automatically considered to indicate SICR but are used as necessary within the broader set of indicators used to assess and grade customer facilities.
Measuring both 12-month and lifetime credit losses	ECL is a function of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD) which are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining the sensitivity of the parameters to movements in these forward looking variables.	The PD, EAD and LGD models are subject to 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. There were no material changes to the models during the six months ended 31 March 2020.
	In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	There were no changes to behavioural lifetime estimates during the six months ended 31 March 2020.

Judgement/assumption	Description	Changes and considerations during the six months ended 31 March 2020
Base case economic forecast	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 six months ended 31 March 2020. As at 31 March 2020, the base case assumptions have been updated to reflect the rapidly evolving global situation with respect to COVID-19. This includes an assessment of the impact of central bank (monetary policy), government (wage subsidies), and institution specific responses (such as payment deferrals). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 31 March 2020 and those previously used at 30 September 2019 are described below under the heading "Forecast base case assumptions".
Probability weighting of each scenario (base case, upside[1], downside[1] and severe downside[2] scenarios)	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects largely the negative economic consequences of COVID-19, greater weighting has been applied to the downside and severe downside scenarios (base 50%, upside 4%, downside 36% and severe downside 10%) given the Banking Group's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Banking Group considers these weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are adjustments used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised.	Temporary adjustments for agriculture industry exposures increased by NZ$15 million, to a total of NZ$30 million as at 31 March 2020. Also, temporary adjustments have been assessed in the context of COVID-19 and the extent that associated credit loss exposures are captured within the modelled economic scenarios, with no further temporary adjustments considered necessary.

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

Base case economic forecast assumptions

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

- The extent and duration of measures to stop or reduce the speed of the spread of COVID-19;
- The extent and duration of the economic downturn, along with the time required for economies to recover; and
- The effectiveness of government stimulus measures, in particular their impact on the magnitude of the economic downturn and the extent and duration of the recovery.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

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

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

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

Sensitivity analysis

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

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

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

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

Customer remediation and other provisions

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

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

Annual goodwill impairment testing

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

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

Value-in-use

These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering an initial forecast period. These projections also incorporate economic assumptions including GDP, inflation, unemployment and residential and commercial property prices. Cash flows beyond the forecast period are extrapolated using the terminal growth rate. These cash flow projections are discounted using a discount rate derived using a capital asset pricing model.

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

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Other intangible assets

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

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

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

Changes in accounting policies

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

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

NZ IFRS 16 *Leases* (NZ IFRS 16)

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

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

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

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

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

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

In addition, the Banking Group elected to apply the following practical expedients as permitted under the modified retrospective transition approach:

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

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

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

Interest Rate Benchmark Reform

Background

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

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

Accounting amendments

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

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

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

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

Impact of IBOR reform

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

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

Impact of IBOR reform on the Banking Group's hedging relationships

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

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

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

As at 31 March 2020	US dollar LIBOR NZ$m
Hedged items	
Debt issuances	12,572

As at 31 March 2020	Notional designated up to 31 December 2021 NZ$m	Notional designated beyond 31 December 2021 NZ$m	Total notional amount NZ$m
Hedging Instruments			
Fair value hedges	5,393	6,637	12,030

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

Comparatives

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

Principles of consolidation

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

2. OTHER OPERATING INCOME

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
(i) Fee and commission revenue		
Lending fees	17	16
Non-lending fees	374	410
Commissions	21	23
Funds management income	133	127
Fee and commission income	545	576
Fee and commission expense	(260)	(241)
Net fee and commission income	285	335
(ii) Other income		
Net trading gains	68	73
Fair value gain / (loss) on hedging activities and financial liabilities designated at fair value	119	(121)
Net foreign exchange earnings and other financial instruments income	187	(48)
Sale of OnePath Life (NZ) Limited (OnePath)	-	59
Sale of investment in Paymark Limited (Paymark)	-	39
Other	11	10
Other income	198	60
Other operating income	483	395

3. OPERATING EXPENSES

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
Personnel		
Salaries and related costs	454	413
Superannuation costs	15	14
Other	24	10
Personnel	493	437
Premises		
Rent[1]	12	41
Other[2]	65	34
Premises	77	75
Technology		
Depreciation and amortisation	24	24
Licences and outsourced services	60	53
Other	22	24
Technology (excluding personnel)	106	101
Other		
Advertising and public relations	24	21
Professional fees	31	27
Freight, stationery, postage and communication	21	22
Charges from Ultimate Parent Bank	41	26
Other	43	35
Other	160	131
Operating expenses	836	744

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

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

4. SEGMENT REPORTING

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

Retail

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

Commercial

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

Institutional

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

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

Other

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

	Retail		Commercial		Institutional		Other		Total	
For the six months ended 31 March	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Net interest income	921	926	549	517	177	169	19	20	1,666	1,632
Net fee and commission income										
- Lending fees	8	8	-	-	9	8	-	-	17	16
- Non-lending fees	343	371	5	9	26	30	-	-	374	410
- Commissions	21	23	-	-	-	-	-	-	21	23
- Funds management fees	133	127	-	-	-	-	-	-	133	127
- Fee and commission expense	(260)	(241)	-	-	-	-	-	-	(260)	(241)
Net fee and commission income	245	288	5	9	35	38	-	-	285	335
Other income	8	7	1	1	46	75	143	(23)	198	60
Net income from insurance business	-	19	-	-	-	-	-	8	-	27
Share of associates' profits	-	4	-	-	-	-	-	-	-	4
Other operating income	253	318	6	10	81	113	143	(15)	483	426
Operating income	1,174	1,244	555	527	258	282	162	5	2,149	2,058
Operating expenses	(574)	(514)	(147)	(128)	(96)	(86)	(19)	(16)	(836)	(744)
Profit before credit impairment and income tax	600	730	408	399	162	196	143	(11)	1,313	1,314
Credit impairment charge	(83)	(31)	(106)	(2)	(44)	(1)	-	-	(233)	(34)
Profit before income tax	517	699	302	397	118	195	143	(11)	1,080	1,280
Income tax expense	(145)	(200)	(85)	(111)	(33)	(55)	(33)	35	(296)	(331)
Profit after income tax	372	499	217	286	85	140	110	24	784	949

NOTES TO THE INTERIM FINANCIAL STATEMENTS

	Retail		Commercial		Institutional		Other		Total	
	31 Mar 20	30 Sep 19	31 Mar 20	30 Sep 19	31 Mar 20	30 Sep 19	31 Mar 20	30 Sep 19	31 Mar 20	30 Sep 19
As at	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Financial position										
Goodwill	**1,039**	1,039	**1,052**	1,052	**1,069**	1,069	**-**	-	**3,160**	3,160
Net loans and advances	**84,676**	81,789	**43,559**	43,464	**7,110**	7,270	**10**	2	**135,355**	132,525
Customer deposits	**76,408**	73,866	**17,218**	16,138	**19,785**	19,232	**-**	-	**113,411**	109,236

Other segment

The Other segment profit after income tax comprises:

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
Central functions	**3**	-
Technology and Group Centre[1, 2]	**11**	195
Economic hedges	**96**	(90)
Revaluation of insurance policies from changes in interest rates[2]	**-**	(81)
Total	**110**	24

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

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

5. CASH AND CASH EQUIVALENTS

	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Coins, notes and bank deposits	**755**	192
Securities purchased under agreements to resell in less than 3 months	**557**	297
Balances with central banks[1]	**6,052**	1,448
Settlement balances receivable within 3 months	**382**	426
Cash and cash equivalents	**7,746**	2,363

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

6. NET LOANS AND ADVANCES

	Note	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Overdrafts		**816**	927
Credit cards		**1,426**	1,569
Term loans - housing		**87,269**	84,007
Term loans - non-housing		**44,539**	44,586
Finance lease and hire purchase receivables		**1,844**	1,863
Subtotal		**135,894**	132,952
Unearned income		**(221)**	(237)
Capitalised brokerage/mortgage origination fees		**326**	307
Gross loans and advances		**135,999**	133,022
Allowance for ECL	7	**(644)**	(497)
Net loans and advances		**135,355**	132,525

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$326 million as at 31 March 2020 (30 September 2019: NZ$739 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

7. ALLOWANCE FOR EXPECTED CREDIT LOSSES

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

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

Net loans and advances - at amortised cost

Allowance for ECL is included in net loans and advances.

			Stage 3		
	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	164	194	42	97	497
Transfer between stages	22	(25)	3	-	-
New and increased provisions (net of collective provision releases)	20	122	16	72	230
Write-backs	-	-	-	(15)	(15)
Recoveries of amounts previously written off	-	-	-	(14)	(14)
Credit impairment charge	42	97	19	43	201
Bad debts written-off (excluding recoveries)	-	-	-	(64)	(64)
Add back recoveries of amounts previously written off	-	-	-	14	14
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2020	206	291	61	86	644

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

Allowance for ECL is included in other provisions

As at 1 October 2019	60	24	2	11	97
Transfer between stages	4	(4)	-	-	-
New and increased provisions (net of releases)	18	13	-	1	32
Credit impairment charge	22	9	-	1	32
As at 31 March 2020	82	33	2	12	129

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

For the six months ended 31 March	2020 NZ$m	2019 NZ$m
New and increased provisions		
- Collectively assessed	189	1
- Individually assessed	73	64
Write-backs	(15)	(20)
Recoveries of amounts previously written-off	(14)	(11)
Total credit impairment charge	233	34

NOTES TO THE INTERIM FINANCIAL STATEMENTS

8. DEPOSITS AND OTHER BORROWINGS

	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Term deposits	51,769	54,984
On demand and short term deposits	47,215	42,329
Deposits not bearing interest	14,427	11,795
UDC secured investments	-	128
Total customer deposits	113,411	109,236
Certificates of deposit	1,695	1,484
Deposits from banks and securities sold under repurchase agreements	1,461	203
Commercial paper	4,456	2,461
Deposits from Immediate Parent Company and NZ Branch	17	43
Deposits and other borrowings	121,040	113,427

9. OTHER PROVISIONS

	Note	31 Mar 20 NZ$m	30 Sep 19 NZ$m
ECL allowance on undrawn facilities	7	129	97
Customer remediation		124	139
Restructuring costs		27	25
Leasehold make good		23	23
Other[1]		27	30
Total other provisions		330	314

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

10. DEBT ISSUANCES

	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Senior debt	21,812	19,307
Covered bonds	4,630	4,460
Total unsubordinated debt	26,442	23,767
Subordinated debt (Additional Tier 1 capital)	2,441	2,440
Total debt issued	28,883	26,207

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

Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by the Covered Bond Guarantor as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

11. CREDIT RISK

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

Maximum exposure to credit risk

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

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

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

	Reported		Excluded[1]		Maximum exposure to credit risk	
	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m
On-balance sheet positions						
Net loans and advances	135,355	132,525	-	-	135,355	132,525
Other financial assets:						
Cash and cash equivalents	7,746	2,363	355	192	7,391	2,171
Settlement balances receivable	404	193	-	-	404	193
Collateral paid	2,527	2,324	-	-	2,527	2,324
Trading securities	11,679	8,942	-	-	11,679	8,942
Derivative financial instruments	13,216	11,666	-	-	13,216	11,666
Investment securities	7,293	7,027	-	-	7,293	7,027
Other financial assets[2]	586	622	-	-	586	622
Total other financial assets	43,451	33,137	355	192	43,096	32,945
Subtotal	178,806	165,662	355	192	178,451	165,470
Off-balance sheet commitments						
Undrawn and contingent facilities[3]	30,018	29,253	-	-	30,018	29,253
Total	208,824	194,915	355	192	208,469	194,723

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

Credit quality

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Net loans and advances

As at 31 March 2020	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
Strong	100,607	2,243	-	-	102,850
Satisfactory	24,510	4,565	-	-	29,075
Weak	580	2,537	-	-	3,117
Defaulted	-	-	577	275	852
Subtotal	125,697	9,345	577	275	135,894
Allowance for ECL	(206)	(291)	(61)	(86)	(644)
Net loans and advances at amortised cost	125,491	9,054	516	189	135,250
Coverage ratio	0.16%	3.11%	10.57%	31.27%	0.47%
Unearned income					(221)
Capitalised brokerage/mortgage origination fees					326
Net carrying amount					135,355
As at 30 September 2019					
Strong	95,589	2,270	-	-	97,859
Satisfactory	26,402	4,621	-	-	31,023
Weak	1,224	2,117	-	-	3,341
Defaulted	-	-	444	285	729
Subtotal	123,215	9,008	444	285	132,952
Allowance for ECL	(164)	(194)	(42)	(97)	(497)
Net loans and advances at amortised cost	123,051	8,814	402	188	132,455
Coverage ratio	0.13%	2.15%	9.46%	34.04%	0.37%
Unearned income					(237)
Capitalised brokerage/mortgage origination fees					307
Net carrying amount					132,525

Off-balance sheet commitments - undrawn and contingent facilities

As at 31 March 2020	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
Strong	25,019	131	-	-	25,150
Satisfactory	4,196	594	-	-	4,790
Weak	20	160	-	-	180
Defaulted	-	-	4	23	27
Gross undrawn and contingent facilities	29,235	885	4	23	30,147
Allowance for ECL included in Other provisions (refer to Note 9)	(82)	(33)	(2)	(12)	(129)
Net undrawn and contingent facilities	29,153	852	2	11	30,018
Coverage ratio	0.28%	3.73%	50.00%	52.17%	0.43%
As at 30 September 2019					
Strong	23,296	59	-	-	23,355
Satisfactory	4,883	641	-	-	5,524
Weak	312	137	-	-	449
Defaulted	-	-	3	19	22
Gross undrawn and contingent facilities	28,491	837	3	19	29,350
Allowance for ECL included in Other provisions (refer to Note 9)	(60)	(24)	(2)	(11)	(97)
Net undrawn and contingent facilities	28,431	813	1	8	29,253
Coverage ratio	0.21%	2.87%	66.67%	57.89%	0.33%

12. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Assets								
Trading securities	9,265	8,319	2,414	623	-	-	11,679	8,942
Derivative financial instruments	28	10	13,185	11,653	3	3	13,216	11,666
Investment securities	7,292	7,026	-	-	1	1	7,293	7,027
Total	16,585	15,355	15,599	12,276	4	4	32,188	27,635
Liabilities								
Deposits and other borrowings	-	-	4,456	2,461	-	-	4,456	2,461
Derivative financial instruments	11	11	12,669	11,031	-	-	12,680	11,042
Other financial liabilities	154	213	-	-	-	-	154	213
Total	165	224	17,125	13,492	-	-	17,290	13,716

Financial assets and financial liabilities not measured at fair value

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

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

	Carrying amount		Fair value	
	31 Mar 20 NZ$m	30 Sep 19 NZ$m	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Financial assets				
Net loans and advances[1]	135,355	132,525	136,160	133,087
Total	135,355	132,525	136,160	133,087
Financial liabilities				
Deposits and other borrowings[2]	116,584	110,966	116,772	111,098
Debt issuances[1]	28,883	26,207	28,192	26,585
Total	145,467	137,173	144,964	137,683

1 Fair value hedging is applied to certain financial instruments within these categories. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.
2 Excludes commercial paper (Note 7 Deposits and Other Borrowings) designated at fair value through profit or loss.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments and contingencies	31 Mar 20 NZ$m	30 Sep 19 NZ$m
Contract amount of:		
Undrawn facilities	**27,399**	26,600
Guarantees and letters of credit	**1,232**	1,248
Performance related contingencies	**1,516**	1,502
Total	**30,147**	29,350

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

Other contingent liabilities

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

Commerce Commission settlement

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

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

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

- The director attestation and assurance framework review was completed in December 2019, and the Bank is committed to implementing the recommendations identified and addressing the issues raised. On 11 December 2019 RBNZ issued a further notice under section 95 of the RBNZ Act, requiring the Bank to obtain an external review of the improvements made to the Bank's directors' attestation and assurance framework.
- The report regarding the Bank's compliance with the RBNZ's capital adequacy requirements was completed in April 2020. This report identified instances of both current and historical non-compliance with capital adequacy requirements. The Bank has accepted the findings of this review, and is working with the RBNZ to rectify the issues identified. The RBNZ has stated that it is confident the Bank will resolve this matter without issue, and has emphasised that the Banking Group remains sound and well capitalised.

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

Warranties and indemnities

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

14. SUBSEQUENT EVENTS

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 18 for further details, and to page 26 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 26 May 2020.

Changes in the Bank's Board of Directors

As at 26 May 2020 there have been changes to the Directors of the Bank since 30 September 2019, the balance date of the last full year disclosure statement. These changes were:

- Alison Gerry was appointed as a Non-Executive Director on 18 October 2019; and
- Antonia Watson was appointed as an Executive Director on 18 December 2019.

Conditions of registration

Non-compliance with conditions of registration

a) Condition of Registration 1B – compliance with BS2B

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

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

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

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

The Bank's model compendium required under section 1.3B of BS2B is non-compliant as it includes unapproved model changes.

Further to the above, in May 2020 the Bank identified that its approach to enhancing wholesale risk grades in the presence of a guarantee is not compliant with BS2B. The estimated impact as at 31 March 2020 is an understatement of RWA of NZ$26 million (0.03%), which is not sufficient to affect the reported capital ratios. The Bank is working with the RBNZ to resolve this issue.

b) Condition of Registration 5 - Exposures to connected persons not on more favourable terms (BS8)

As reported in the disclosure statement for the year ended 30 September 2019, from time to time, the Bank provides a guarantee or standby letter of credit to a third party in respect of an obligation of a customer of the Ultimate Parent Bank. The Ultimate Parent Bank provides a counter-guarantee or standby letter of credit to the Bank, giving the Bank recourse directly to the Ultimate Parent Bank if the guarantee or standby letter of credit the Bank provides in respect of the customer's obligations is called upon. The Bank charges the Ultimate Parent Bank a fee for this service. However, through an internal review, the Bank identified that since January 2014 this fee had been lower than the fee charged for this same service provided to unrelated banks and, as a result, the Bank has not complied with condition of registration 5. The Bank has implemented a revised pricing methodology for all new transactions entered into from 1 January 2020. As at 31 December 2019, the value of the exposure under the previous pricing arrangements was NZ$374 million across 232 individual transactions.

c) Condition of Registration 13 - Liquidity ratios (BS13)

The following matters of non-compliance with BS13 were reported in the disclosure statement for the year ended 30 September 2019. These errors were not sufficient to affect the reported liquidity ratios and processes have been updated with effect from 31 January 2020 to ensure the calculations comply with BS13.

- The Bank calculated the next cash inflow on variable-rate housing loans based on a current wholesale rate plus the existing margin rather than using the current interest rate to calculate the inflow. This calculation error had existed since 2010.
- The liquidity ratio calculation system and the system of record for certain bond liabilities and certain swaps calculate future cash flows differently. The difference had been known since 2017.

d) Condition of Registration 24 – Outsourcing (BS11 dated September 2017)

BS11 requires the Bank to apply specified risk mitigants against each outsourcing arrangement.

- During the year ended 30 September 2019, the Bank outsourced two arrangements to the Overseas Banking Group without the required prescribed contractual terms. These arrangements were remediated in December 2019.
- During the six months ended 31 March 2020, one of the Bank's independent third party contracts expired nine days before a replacement contract was entered into. During those nine days the relevant outsourcing arrangement did not include the prescribed contractual terms.

BS11 requires the Bank to have a compendium of information about outsourcing arrangements in place from 1 October 2019.

- In November 2019, the Bank informed the RBNZ that minor data discrepancies had been identified for certain information entered in the compendium during the year ended 30 September 2019. The discrepancies were corrected in December 2019.
- Additional data discrepancies and instances of potentially incomplete information have been identified during the six months ended 31 March 2020, which will be investigated and corrected by 30 September 2020.

Changes since 31 March 2020

Effective 2 April 2020, the Bank's conditions of registration have been amended to:

- include restrictions on payments of dividends on ordinary shares;
- reduce the minimum requirement for the core funding ratio from 75% to 50%; and
- refer to the revised version of the RBNZ Banking Supervision Handbook document BS11 which extends the transition period to 6 years, with this revised version of BS11 becoming fully effective from 1 October 2021.

Effective 1 May 2020, the Bank's conditions of registration have been amended to remove restrictions on high loan-to-valuation residential mortgage lending.

Other matters

The Bank has identified one counterparty that had been misclassified as sovereign, inconsistent with the definition in BS2B paragraph 4.5, since December 2017. The estimated impact as at 31 March 2020 is an understatement of RWA of NZ$383 million (0.38%), and an overstatement of the Banking Group's capital ratios of 0.05%. This did not result in non-compliance with the Bank's conditions of registration over the six months ended 31 March 2020. However, until 31 December 2018, Condition of Registration 1B required compliance with all aspects of BS2B and, as a result, the Bank had not complied with Condition of Registration 1B in respect of this matter between December 2017 and 31 December 2018. The Bank is working with the RBNZ to resolve this issue.

There are several matters under review, including the calculation of the market risk capital requirement (under BS2B) and liquidity ratios (under BS13 and BS13A), 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 will seek further guidance from the RBNZ on these matters. In the Bank's current view, the potential impact of the application of other interpretations is immaterial to reported ratios.

Other material matters

RBNZ review of capital requirements

Between May 2017 and December 2019, the RBNZ conducted a comprehensive review of the capital adequacy framework applying to New Zealand locally incorporated registered banks. The RBNZ's final decisions on the capital review as they relate to the Bank are set out below. In response to the COVID-19 pandemic, the RBNZ has delayed the start date for the increased capital requirements by 12 months to support credit availability, with further delays possible if the conditions warrant it in 2021. The new regime is currently expected to be implemented in stages from 1 July 2021, with a transition period of seven years before banks are required to fully comply with the new rules.

- The Banking Group's total capital requirement will increase to 18% of RWA, including tier 1 capital of at least 16% of RWA. Up to 2.5% can be made up of additional tier 1 (AT1) capital, with the remaining 13.5% made up of common equity tier 1 (CET1) capital. AT1 capital must consist of redeemable perpetual preference shares. The total capital requirement can also include tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The tier 1 capital requirement will include a CET1 prudential capital buffer of 9% of RWA. This will include a 2% prudential capital buffer; a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and a 5.5% conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at 31 March 2020, the Bank had approximately NZ$2,741 million of AT1 instruments that will progressively lose their eligible regulatory capital treatment over a seven year transition period.
- As an internal ratings based (IRB)-approach accredited bank, the Banking Group's RWA outcomes will be increased to approximately 90% of what would be calculated under the standardised approach. This will be achieved by applying an 85% output floor, and increasing the credit RWA scalar from 1.06 to 1.2.
- The Banking Group will be required to report RWA, and resulting capital ratios, using both internal models and the standardised approach.

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

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

Auditors

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

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 13 Commitments and Contingent Liabilities.

REGISTERED BANK DISCLOSURES

Credit rating

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

The Bank's credit ratings are:

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

Directors' statements

The Directors' statement is included on page 43.

Auditor's review report

The auditor's review report is included on page 44.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

As at 31 March 2020	NZ$m
Total interest earning and discount bearing assets	164,760
Total interest and discount bearing liabilities	138,007
Total amounts due from related entities	4,969
Total amounts due to related entities	7,210

Assets charged as security for liabilities

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

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

- Securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements.
- Specified residential mortgages provided as security for notes and bonds issued to investors as part of the Bank's covered bond programme.

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

As at 31 March 2020	NZ$m
Securities sold under agreements to repurchase	1,161
Residential mortgages pledged as security for covered bonds	12,063

Additional information on the income statement

The amounts of net trading gains or losses and other fair value adjustments are included in Note 2 Other Operating Income. The Banking Group does not have any loans and advances designated at fair value through profit or loss. Other operating income for the purposes of the Order comprises net fee and commission income, all other items of other income (all in Note 2 Other Operating Income), net income from insurance business and share of associates' profit (both shown on the income statement).

Additional information on concentrations of credit risk

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

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

As at 31 March 2020	Loans and advances[3] NZ$m	Other financial assets NZ$m	Off-balance sheet credit related commitments[4] NZ$m	Total NZ$m
New Zealand residents				
Agriculture	17,449	79	1,024	18,552
Forestry and fishing, agriculture services	1,188	10	173	1,371
Manufacturing	2,802	454	2,122	5,378
Electricity, gas, water and waste services	1,246	538	1,764	3,548
Construction	1,710	30	929	2,669
Wholesale trade	1,536	199	1,585	3,320
Retail trade and accommodation	2,884	27	846	3,757
Transport, postal and warehousing	1,452	175	735	2,362
Finance and insurance services	565	12,514	1,708	14,787
Public administration and safety[1]	338	12,377	1,122	13,837
Rental, hiring & real estate services	35,031	1,325	2,224	38,580
Professional, scientific, technical, administrative and support services	1,062	11	475	1,548
Households	64,153	189	14,133	78,475
All other New Zealand residents[2]	2,535	258	1,201	3,994
Subtotal	133,951	28,186	30,041	192,178
Overseas				
Finance and insurance services	77	14,830	106	15,013
Households	1,193	4	-	1,197
All other non-NZ residents	673	76	-	749
Subtotal	1,943	14,910	106	16,959
Gross subtotal	135,894	43,096	30,147	209,137
Allowance for ECL	(644)	-	(129)	(773)
Subtotal	135,250	43,096	30,018	208,364
Unearned income	(221)	-	-	(221)
Capitalised brokerage / mortgage origination fees	326	-	-	326
Maximum exposure to credit risk	135,355	43,096	30,018	208,469

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

Additional information on concentrations of funding

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

As at 31 March 2020	Note	NZ$m
Funding composition		
Customer deposits	8	113,411
Wholesale funding		
Debt issuances		28,883
Certificates of deposit and commercial paper		6,151
Other borrowings		1,478
Total wholesale funding		36,512
Total funding		149,923
Customer deposits by industry - New Zealand residents		
Agriculture, forestry and fishing		3,990
Manufacturing		2,318
Construction		2,563
Wholesale trade		2,081
Retail trade and accommodation		2,053
Financial and insurance services		11,959
Rental, hiring and real estate services		3,637
Professional, scientific, technical, administrative and support services		5,806
Public administration and safety		1,441
Arts, recreation and other services		2,074
Households		60,917
All other New Zealand residents[1]		4,426
		103,265
Customer deposits by industry - overseas		
Households		9,508
All other		638
		10,146
Total customer deposits		113,411
Wholesale funding (financial and insurance services industry)		
New Zealand		8,714
Overseas		27,798
Total wholesale funding		36,512
Total funding		149,923
Concentrations of funding by geography		
New Zealand		111,979
Australia		832
United States		18,603
Europe		11,152
Other countries		7,357
Total funding		149,923

[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.

Additional information on interest rate sensitivity

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

As at 31 March 2020	Total NZ$m	Up to 3 months NZ$m	Over 3 to 6 months NZ$m	Over 6 to 12 months NZ$m	Over 1 to 2 years NZ$m	Over 2 years NZ$m	Not bearing interest[1] NZ$m
Assets							
Cash and cash equivalents	7,746	7,358	-	-	-	-	388
Settlement balances receivable	404	-	-	-	-	-	404
Collateral paid	2,527	2,527	-	-	-	-	-
Trading securities	11,679	2,255	870	505	1,652	6,397	-
Derivative financial instruments	13,216	-	-	-	-	-	13,216
Investment securities	7,293	294	-	298	1,737	4,963	1
Net loans and advances	135,355	63,163	12,340	21,662	30,854	7,885	(549)
Other financial assets	586	-	-	-	-	-	586
Total financial assets	178,806	75,597	13,210	22,465	34,243	19,245	14,046
Liabilities							
Settlement balances payable	2,265	743	-	-	-	-	1,522
Collateral received	1,290	1,290	-	-	-	-	-
Deposits and other borrowings	121,040	77,652	15,420	10,011	2,137	1,393	14,427
Derivative financial instruments	12,680	-	-	-	-	-	12,680
Debt issuances	28,883	4,117	3,712	1,984	5,987	13,083	-
Other financial liabilities	929	167	12	23	56	220	451
Total financial liabilities	167,087	83,969	19,144	12,018	8,180	14,696	29,080
Hedging instruments	-	14,569	1,196	(9,812)	(14,832)	8,879	-
Interest sensitivity gap	11,719	6,197	(4,738)	635	11,231	13,428	(15,034)

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

Additional information on liquidity risk

Maturity analysis of financial liabilities

The table below provides residual contractual maturity analysis of financial liabilities at 31 March 2020 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

As at 31 March 2020	On demand NZ$m	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Settlement balances payable	1,325	951	-	-	-	2,276
Collateral received	-	1,290	-	-	-	1,290
Deposits and other borrowings	61,643	28,188	28,631	3,819	1	122,282
Derivative financial liabilities (trading)	-	10,957	-	-	-	10,957
Debt issuances[1]	-	358	5,854	18,093	5,577	29,882
Other financial liabilities	-	53	5	107	58	223
Derivative financial instruments (balance sheet management)						
- gross inflows	-	736	1,422	8,369	796	11,323
- gross outflows	-	(830)	(1,674)	(8,800)	(809)	(12,113)

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

At 31 March 2020, NZ$51 million of the Banking Group's NZ$124 million of non-credit related commitments and all NZ$30,147 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.

REGISTERED BANK DISCLOSURES

Liquidity portfolio

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

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

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

Reconciliation of mortgage related amounts

As at 31 March 2020	Note	NZ$m
Term loans - housing[1]	6	87,269
Less: fair value hedging adjustment		(9)
Less: fair value adjustment on mortgages repurchased from the NZ Branch		(1)
Less: housing loans made to corporate customers		(2,062)
Add: unsettled re-purchases of mortgages from the NZ Branch		4
On-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	85,201
Add: off-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	8,527
Total residential mortgage exposures subject to the IRB approach (per LVR analysis)	B4	**93,728**

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, and Note 7 and Note 11, to the financial statements.

Movements in components of loss allowance - total

			Stage 3		
Net loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	164	194	42	97	497
Transfer between stages	22	(25)	3	-	-
New and increased provisions (net of collective provision releases)	20	122	16	72	230
Write-backs	-	-	-	(15)	(15)
Recoveries of amounts previously written off	-	-	-	(14)	(14)
Credit impairment charge	42	97	19	43	201
Bad debts written-off (excluding recoveries)	-	-	-	(64)	(64)
Add back recoveries of amounts previously written off	-	-	-	14	14
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2020	206	291	61	86	644
Off-balance sheet credit related commitments - total					
As at 1 October 2019	60	24	2	11	97
Transfer between stages	4	(4)	-	-	-
New and increased provisions (net of collective provision releases)	18	13	-	1	32
Credit impairment charge	22	9	-	1	32
As at 31 March 2020	82	33	2	12	129

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	-	708	191	36	935
Amounts drawn from new or existing facilities	19,434	772	36	106	20,348
Additions	19,434	1,480	227	142	21,283
Net transfers out of each stage	(935)	-	-	-	(935)
Amounts repaid	(16,087)	(1,143)	(94)	(88)	(17,412)
Deletions	(17,022)	(1,143)	(94)	(88)	(18,347)
Amounts written off	-	-	-	(64)	(64)
As at 31 March 2020	125,697	9,345	577	275	135,894
Loss allowance as at 31 March 2020	206	291	61	86	644
Off-balance sheet credit related commitments - total					
As at 1 October 2019	28,491	837	3	19	29,350
Transfers in to each stage	-	81	4	2	87
Amounts drawn from new or existing facilities	5,149	122	1	17	5,289
Additions	5,149	203	5	19	5,376
Transfers out of each stage	(87)	-	-	-	(87)
Amounts repaid	(4,318)	(155)	(4)	(15)	(4,492)
Deletions	(4,405)	(155)	(4)	(15)	(4,579)
Amounts written off	-	-	-	-	-
As at 31 March 2020	29,235	885	4	23	30,147
Loss allowance as at 31 March 2020	82	33	2	12	129

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

Overall, loss allowances are 0.5% of gross balances as at 31 March 2020, up from 0.4% as at 30 September 2019. While gross balances have increased, and there has been a small increase in the proportion of gross balances in Stage 2 and Stage 3, the NZ$179 million (30.1%) increase in loss allowances is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings as described in Note 1 to the financial statements.

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	18	25	12	22	77
Transfer between stages	7	(8)	1	-	-
New and increased provisions (net of collective provision releases)	(1)	40	11	2	52
Write-backs	-	-	-	(3)	(3)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge / (release)	6	32	12	(1)	49
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 31 March 2020	24	57	24	21	126
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 31 March 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
Transfers in to each stage	-	301	99	8	408
Amounts drawn from new or existing facilities	12,543	330	23	13	12,909
Additions	12,543	631	122	21	13,317
Transfers out of each stage	(408)	-	-	-	(408)
Amounts repaid	(9,176)	(358)	(54)	(21)	(9,609)
Deletions	(9,584)	(358)	(54)	(21)	(10,017)
Amounts written off	-	-	-	-	-
As at 31 March 2020	82,087	2,748	341	25	85,201
Loss allowance as at 31 March 2020	24	57	24	21	126
Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2019	8,232	36	-	-	8,268
Transfers in to each stage	-	6	-	-	6
Amounts drawn from new or existing facilities	1,235	7	-	-	1,242
Additions	1,235	13	-	-	1,248
Transfers out of each stage	(6)	-	-	-	(6)
Amounts repaid	(976)	(7)	-	-	(983)
Deletions	(982)	(7)	-	-	(989)
Amounts written off	-	-	-	-	-
As at 31 March 2020	8,485	42	-	-	8,527
Loss allowance as at 31 March 2020	-	-	-	-	-

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$49 million (63.6%) increase in loss allowances on residential mortgage exposures is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings as described in Note 1 to the financial statements. 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 39).

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 2019	26	51	24	14	115
Transfer between stages	8	(8)	-	-	-
New and increased provisions (net of collective provision releases)	(6)	17	2	39	52
Write-backs	-	-	-	(7)	(7)
Recoveries of amounts previously written off	-	-	-	(10)	(10)
Credit impairment charge	2	9	2	22	35
Bad debts written-off (excluding recoveries)	-	-	-	(34)	(34)
Add back recoveries of amounts previously written off	-	-	-	10	10
Discount unwind	-	-	-	-	-
As at 31 March 2020	28	60	26	12	126
Off-balance sheet credit related commitments - other retail exposures					
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	-	-	4
Credit impairment charge	2	2	-	-	4
As at 31 March 2020	19	13	2	-	34

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

Gross loans and advances - other retail exposures	Stage 1	Stage 2	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
As at 1 October 2019	3,135	305	45	30	3,515
Transfers in to each stage	-	13	18	16	47
Amounts drawn from new or existing facilities	773	20	1	30	824
Additions	773	33	19	46	871
Transfers out of each stage	(47)	-	-	-	(47)
Amounts repaid	(1,127)	(62)	(19)	(16)	(1,224)
Deletions	(1,174)	(62)	(19)	(16)	(1,271)
Amounts written off	-	-	-	(34)	(34)
As at 31 March 2020	2,734	276	45	26	3,081
Loss allowance as at 31 March 2020	28	60	26	12	126
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2019	4,578	46	3	-	4,627
Transfers in to each stage	-	4	3	-	7
Amounts drawn from new or existing facilities	321	7	1	-	329
Additions	321	11	4	-	336
Transfers out of each stage	(7)	-	-	-	(7)
Amounts repaid	(227)	(8)	(3)	-	(238)
Deletions	(234)	(8)	(3)	-	(245)
Amounts written off	-	-	-	-	-
As at 31 March 2020	4,665	49	4	-	4,718
Loss allowance as at 31 March 2020	19	13	2	-	34

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

While there has been a small increase in the proportion of gross balances in Stage 2 and Stage 3, the NZ$15 million (10.3%) increase in loss allowances is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings as described in Note 1 to the financial statements. This has been partially offset by a decrease in gross balances.

REGISTERED BANK DISCLOSURES

Movements in components of loss allowance - corporate exposures

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	120	118	6	61	305
Transfer between stages	7	(9)	2	-	-
New and increased provisions (net of collective provision releases)	27	65	3	31	126
Write-backs	-	-	-	(5)	(5)
Recoveries of amounts previously written off	-	-	-	(4)	(4)
Credit impairment charge	34	56	5	22	117
Bad debts written-off (excluding recoveries)	-	-	-	(30)	(30)
Add back recoveries of amounts previously written off	-	-	-	4	4
Discount unwind	-	-	-	(4)	(4)
As at 31 March 2020	154	174	11	53	392
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2019	43	13	-	11	67
Transfer between stages	1	(1)	-	-	-
New and increased provisions (net of collective provision releases)	19	8	-	1	28
Credit impairment charge	20	7	-	1	28
As at 31 March 2020	63	20	-	12	95

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 2019	41,022	6,228	126	230	47,606
Transfers in to each stage	-	394	74	12	480
Amounts drawn from new or existing facilities	6,118	422	12	63	6,615
Additions	6,118	816	86	75	7,095
Transfers out of each stage	(480)	-	-	-	(480)
Amounts repaid	(5,784)	(723)	(21)	(51)	(6,579)
Deletions	(6,264)	(723)	(21)	(51)	(7,059)
Amounts written off	-	-	-	(30)	(30)
As at 31 March 2020	40,876	6,321	191	224	47,612
Loss allowance as at 31 March 2020	154	174	11	53	392
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2019	15,681	755	-	19	16,455
Transfers in to each stage	-	71	1	2	74
Amounts drawn from new or existing facilities	3,593	108	-	17	3,718
Additions	3,593	179	1	19	3,792
Transfers out of each stage	(74)	-	-	-	(74)
Amounts repaid	(3,115)	(140)	(1)	(15)	(3,271)
Deletions	(3,189)	(140)	(1)	(15)	(3,345)
Amounts written off	-	-	-	-	-
As at 31 March 2020	16,085	794	-	23	16,902
Loss allowance as at 31 March 2020	63	20	-	12	95

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 2 and Stage 3, the NZ$115 million (30.9%) increase in loss allowances is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings as described in Note 1 to the financial statements. This has been partially offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

Past due assets and other asset quality information

As at 31 March 2020	Residential mortgages NZ$m	Other retail exposures NZ$m	Corporate exposures NZ$m	Total NZ$m
Past due assets				
Less than 30 days past due	677	198	437	1,312
At least 30 days but less than 60 days past due	186	34	136	356
At least 60 days but less than 90 days past due	169	19	1	189
At least 90 days past due	338	36	11	385
Total past due but not individually impaired	1,370	287	585	2,242
Other asset quality information				
Undrawn facilities with impaired customers	-	-	23	23
Other assets under administration	3	1	-	4

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

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

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
As at 31 March	RBNZ minimum	2020	2019	2020	2019
Common equity tier 1 capital	4.5%	11.1%	11.4%	10.7%	10.2%
Tier 1 capital	6.0%	13.9%	14.6%	13.5%	13.5%
Total capital	8.0%	13.9%	14.6%	13.5%	13.5%
Buffer ratio	2.5%	5.9%	6.6%	n/a	n/a

Capital of the Banking Group

As at 31 March 2020	NZ$m
Tier 1 capital	
Common equity tier 1 (CET1) capital	
Paid up ordinary shares issued by the Bank	11,588
Retained earnings (net of appropriations)	3,271
Accumulated other comprehensive income and other disclosed reserves	(15)
Less deductions from common equity tier 1 capital	
Goodwill and intangible assets, net of associated deferred tax liabilities	(3,267)
Deferred tax assets less deferred tax liabilities relating to temporary differences	(314)
Cash flow hedge reserve	(18)
Expected losses to the extent greater than total eligible allowances for impairment	(181)
Common equity tier 1 capital	11,064
Additional tier 1 capital	
Preference shares[1]	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2]	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[2]	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[2]	938
Retained earnings of the Bonus Bonds Scheme[3]	59
Less deductions from additional tier 1 capital	
Surplus retained earnings of the Bonus Bonds Scheme[3]	(20)
Additional tier 1 capital	2,780
Total tier 1 capital	13,844
Tier 2 capital	-
Total capital	13,844

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

Capital requirements of the Banking Group

As at 31 March 2020	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	202,828	71,289	5,703
Operational risk	n/a	9,987	799
Market risk	n/a	5,226	418
Supervisory adjustment	n/a	13,303	1,064
Total	n/a	99,805	7,984

[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.

Capital structure

Ordinary shares– common equity tier 1 capital

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

Preference shares– additional tier 1 capital

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

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

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

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

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

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

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

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

Additional tier 1 (AT1) capital notes

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

As at 31 March 2020, 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). This option is subject to RBNZ's prior written approval.

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

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

if:

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

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

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

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

The table below show the key details of the AT1 capital notes on issue at 31 March 2020:

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ$500 million	NZ$1,003 million	NZ$938 million
Face value	NZ$1	NZ$100	NZ$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	Fixed at 7.2% p.a. until 25 May 2020. Resets in May 2020 to a floating rate: (New Zealand 3 month Bank bill rate + 3.5%)	Floating rate: (New Zealand 6 month Bank Bill rate + 3.8%)	Floating rate: (New Zealand 6 month Bank Bill rate + 6.29%)
Issuer's early redemption or conversion option	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
Carrying value as at 31 March 2020 (net of issue costs)	NZ$500 million	NZ$1,003 million	NZ$938 million

[1] On 2 April 2020, RBNZ announced that locally incorporated banks, including the Bank, should not redeem capital notes at this 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.

Reserves – common equity tier 1 capital

Accumulated other comprehensive income and other disclosed reserves includes the cash flow hedging reserve of NZ$18 million less the investment securities revaluation reserve of NZ$33 million as at 31 March 2020.

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

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

REGISTERED BANK DISCLOSURES

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

IRB credit exposures by exposure class and customer credit rating

As at 31 March 2020	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	0.06	61,861	5,025	59	28	1,515	121
3 - 4	0.32	45,433	23,908	38	42	10,664	853
5	1.00	14,364	12,213	33	57	7,372	590
6	2.31	5,127	4,758	35	80	4,054	324
7 - 8	18.87	2,265	1,970	41	184	3,845	308
Default	100.00	463	461	41	113	552	44
Total corporate exposures	2.36	129,513	48,335	39	55	28,002	2,240
Sovereign							
0	0.01	28,898	14,475	5	1	173	14
1 - 8	0.01	1,309	1,292	5	2	22	2
Total sovereign exposures	0.01	30,207	15,767	5	1	195	16
Bank							
1	0.03	986,034	9,960	55	26	2,791	223
2 - 4	0.11	45,938	749	64	38	299	24
5 - 8	1.69	1	1	65	131	2	-
Total bank exposures	0.04	1,031,973	10,710	56	27	3,092	247
Residential mortgages							
0 - 3	0.20	29,389	29,766	12	5	1,707	137
4	0.45	38,228	38,377	19	15	6,229	498
5	0.91	21,330	21,426	24	31	7,117	569
6	1.97	4,088	4,092	26	58	2,514	201
7 - 8	4.79	282	282	26	91	272	22
Default	100.00	411	410	18	14	58	5
Total residential mortgages exposures	0.99	93,728	94,353	18	18	17,897	1,432
Other retail							
0 - 2	0.10	544	547	77	49	287	23
3 - 4	0.26	4,618	4,702	78	55	2,717	217
5	1.07	1,850	1,826	71	75	1,447	116
6	2.35	1,965	2,002	69	88	1,871	150
7 - 8	8.99	1,189	1,224	85	134	1,733	139
Default	100.00	85	86	76	62	56	4
Total other retail exposures	2.64	10,251	10,387	76	74	8,111	649
Total credit risk exposures subject to the IRB approach	1.31	1,295,672	179,552	28	30	57,297	4,584

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

As at 31 March 2020	Total value NZ$m	Exposure at default NZ$m
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	12,534	11,622
Sovereign	289	281
Bank	1,337	1,148
Residential mortgages	8,527	8,954
Other retail	5,336	5,400
Market related contracts		
Corporate	81,709	2,194
Sovereign	13,869	152
Bank	1,022,598	3,462
Residential mortgages	-	-
Other retail	-	-

Additional mortgage information

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

As at 31 March 2020	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	42,255	5,894	48,149
Exceeds 60% and not 70%	19,358	1,355	20,713
Exceeds 70% and not 80%	18,710	951	19,661
Does not exceed 80%	80,323	8,200	88,523
Exceeds 80% and not 90%	3,666	145	3,811
Exceeds 90%	1,212	182	1,394
Total	85,201	8,527	93,728

Specialised lending subject to the slotting approach

As at 31 March 2020	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	4,895	70	3,632	291
Good	6,469	90	6,172	494
Satisfactory	247	115	302	24
Weak	233	250	618	48
Default	12	-	-	-

As at 31 March 2020	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	1,375	92	1,343	108

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-.

REGISTERED BANK DISCLOSURES

Credit risk exposures subject to the standardised approach

As at 31 March 2020	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	355	-	-	-
Sovereign and central banks	6,052	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	1,510	6	94	8
Residential mortgages	-	-	-	-
Past due assets	1	150	1	-
Other assets	1,314	100	1,393	111

As at 31 March 2020	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						
Total off-balance sheet exposures subject to the standardised approach	598	68	405	96	411	33
Market related contracts subject to the standardised approach						
Foreign exchange contracts	-	n/a	-	-	-	-
Interest rate contracts	341,817	n/a	407	5	21	2
Other - OTC etc	-	n/a	-	-	-	-

Equity exposures

As at 31 March 2020	Total exposure 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

As at 31 March 2020, the Banking Group had NZ$900 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 31 March 2020, the Banking Group had an implied risk weighted exposure of NZ$9,987 million for operational risk and an operational risk capital requirement of NZ$799 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 31 March 2020.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end	Peak	Period end	Peak
As at 31 March 2020	NZ$m	NZ$m	NZ$m	NZ$m
Interest rate risk	5,187	7,015	415	561
Foreign currency risk	38	110	3	9
Equity risk	1	1	-	-

Capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration. Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk and software risk. The Banking Group's internal capital allocation for these other material risks is NZ$343 million. (March 2019: NZ$282 million).

Information about Ultimate Parent Bank and Overseas Banking Group

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

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

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

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Pacific, and local corporates in Asia) where the Overseas Banking Group applies the standardised approach.
- the AMA for the operational risk weighted asset equivalent.

The Overseas Banking Group exceeded the minimum capital requirements set by APRA as at 31 March 2020 and for the comparative prior periods.

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

Regulatory liquidity ratios

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

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

For the three months ended	31 Mar 20	31 Dec 19
Quarterly average 1-week mismatch ratio	6.5%	5.6%
Quarterly average 1-month mismatch ratio	6.6%	5.6%
Quarterly average core funding ratio	87.2%	88.0%

REGISTERED BANK DISCLOSURES

B5. CONCENTRATIONS OF CREDIT RISK TO INDIVIDUAL COUNTERPARTIES

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

The exposure information in the table below excludes exposures to:

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

	As at 31 Mar 20	Peak end of day over 6 months to 31 Mar 20
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	3	3
with a long-term credit rating of A- or A3 or above, or its equivalent	3	3
- 10% to less than 15% of CET1 capital	1	1
- 15% to less than 20% of CET1 capital	1	1
- 20% to less than 25% 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	4	4
with a long-term credit rating of A- or A3 or above, or its equivalent	4	4
- 10% to less than 15% of CET1 capital	4	4
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

B6. INSURANCE BUSINESS

As at 31 March 2020, the Banking Group does not conduct any insurance business.

DIRECTORS' STATEMENT

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

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

Over the six months ended 31 March 2020, after due enquiry, each Director believes that, except as noted on pages 24 and 25:

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

This Disclosure Statement is dated, and has been signed by all Directors of the Bank on, 26 May 2020.

Antony Carter

Shayne Elliott

Alison Gerry

Michelle Jablko

Rt Hon Sir John Key, GNZM AC

Mark Verbiest

Antonia Watson

Joan Withers

INDEPENDENT AUDITOR'S REVIEW REPORT

KPMG

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE HALF YEAR DISCLOSURE STATEMENT

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

CONCLUSION

Based on our review of the interim financial statements and the registered bank disclosures (together referred to as 'the disclosure statement') of ANZ Bank New Zealand Limited and its subsidiaries (the Banking Group) on pages 3 to 42, nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 3 to 23 do not present fairly in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, in all material respects, the Banking Group's financial position as at 31 March 2020 and its financial performance and cash flows for the six month period ended on that date; and
- the registered bank disclosures in sections B2, B3, B5 and B6 disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order) respectively, do not fairly state, in all material respects, the matters to which they relate in accordance with those schedules.

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

- the interim financial statements formed of:
  - the consolidated balance sheet as at 31 March 2020;
  - the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the six month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the registered bank disclosures prescribed in Schedules 5, 7, 13, 16 and 18 of the Order.

BASIS FOR CONCLUSION

A review of the half year disclosure statement in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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

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

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

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

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

As described in Note 1 *Use of estimates, assumptions and judgements* the underlying forecasts and assumptions are subject to uncertainties which are often outside the control of the Banking Group. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact the resulting accounting estimates.

In our view, this issue is fundamental to the users' understanding of the interim financial Statements and the financial position and performance of the Banking Group.

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

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

We draw attention to section B1 of the half year disclosure statement, in which the Banking Group discloses that it has identified non-compliance with aspects of its Conditions of Registration relating to:

- Capital adequacy;
- Exposures to connected persons; and
- Outsourcing.

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

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

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

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

- the preparation and fair presentation of the interim financial statements and registered bank disclosures in accordance with IAS 34, NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order;
- implementing necessary internal controls to enable the preparation of interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

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

- the interim financial statements do not present fairly, in all material respects, the Banking Group's financial position as at 31 March 2020 and its financial performance and cash flows for the six month period ended on that date;
- the interim financial statements do not, in all material respects, comply with IAS 34 and NZ IAS 34; and
- the registered bank disclosures in sections B2, B3, B5 and B6 does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

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

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

QUALIFIED REVIEW CONCLUSION

We have reviewed the registered bank disclosures, as disclosed in section B4 of the disclosure statement for the six month period ended 31 March 2020, which are required to be disclosed in accordance with Schedule 11 of the Order.

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

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

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

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

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

INDEPENDENT AUDITOR'S REVIEW REPORT

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

In this respect, the Capital Adequacy Ratios disclosed in section B4 of the disclosure statement have not been disclosed in accordance with Schedule 11 of the Order, with section B1 disclosing the Banking Group's calculation of the corresponding impact on risk weighted assets. The Banking Group is working with the Reserve Bank of New Zealand to remediate this matter.

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

DIRECTORS' RESPONSIBILITIES 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 of the Disclosure Statement in accordance with Schedule 11 of the Order.

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

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

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

USE OF THIS INDEPENDENT REVIEW REPORT

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

KPMG

KPMG
Auckland

26 May 2020

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