18 November 2020

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

ANZ Bank New Zealand Limited
Annual Report and Registered Bank Disclosure Statement

Australia and New Zealand Banking Group Limited (ANZ) today released its ANZ Bank New Zealand Limited Annual Report and Registered Bank Disclosure Statement for the year ended 30 September 2020.

It has been approved for distribution by ANZ’s Continuous Disclosure Committee.

Yours faithfully

Simon Pordage
Company Secretary
Australia and New Zealand Banking Group Limited

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

FOR THE YEAR ENDED 30 SEPTEMBER 2020
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ANNUAL REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

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

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2020 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
17 November 2020

Antonia Watson
Executive Director
17 November 2020

GLOSSARY OF TERMS

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

Bank means ANZ Bank New Zealand Limited.

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

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

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

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

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

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

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

OnePath means OnePath Life (NZ) Limited.

UDC means UDC Finance Limited.

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

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

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

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

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FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2020 NZ$m	2019 NZ$m
Interest income		5,568	6,423
Interest expense		(2,306)	(3,179)
Net interest income	2	3,262	3,244
Other operating income	2	807	915
Net income from insurance business	2	-	27
Share of associates' profit	2	-	4
Operating income		4,069	4,190
Operating expenses	3	(1,752)	(1,608)
Profit before credit impairment and income tax		2,317	2,582
Credit impairment charge	12	(403)	(101)
Profit before income tax		1,914	2,481
Income tax expense	4	(541)	(662)
Profit for the year		1,373	1,819

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2020 NZ$m	2019 NZ$m
Profit for the year	1,373	1,819
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss	(6)	(33)
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised gains / (losses) recognised directly in equity	122	(31)
Realised losses transferred to the income statement	12	14
Income tax attributable to the above items	(36)	15
Other comprehensive income after tax	92	(35)
Total comprehensive income for the year	1,465	1,784

The notes appearing on pages 8 to 70 form an integral part of these financial statements

BALANCE SHEET

As at 30 September	Note	2020 NZ$m	2019 NZ$m
Assets			
Cash and cash equivalents	7	**8,248**	2,363
Settlement balances receivable		**378**	193
Collateral paid		**1,394**	2,324
Trading securities	8	**12,797**	8,942
Derivative financial instruments	9	**9,702**	11,666
Investment securities	10	**9,893**	7,027
Net loans and advances	11	**132,698**	132,525
Deferred tax assets[1]	4	**327**	77
Goodwill and other intangible assets	19	**3,092**	3,276
Premises and equipment[1]		**590**	335
Other assets		**625**	688
Total assets		**179,744**	169,416
Liabilities			
Settlement balances payable		**2,950**	1,607
Collateral received		**1,275**	991
Deposits and other borrowings	13	**125,061**	113,427
Derivative financial instruments	9	**8,252**	11,042
Current tax liabilities		**251**	101
Payables and other liabilities[1]		**1,115**	1,159
Employee entitlements		**143**	138
Other provisions	20	**389**	314
Debt issuances	14	**24,439**	26,207
Total liabilities		**163,875**	154,986
Net assets		**15,869**	14,430
Equity			
Share capital	21	**11,888**	11,888
Reserves		**118**	21
Retained earnings[1]		**3,863**	2,521
Total equity		**15,869**	14,430

1 On adoption of NZ IFRS 16 *Leases* on 1 October 2019, the Banking Group recognised right-of-use assets of NZ$309 million presented within Premises and equipment and lease liabilities of NZ$333 million presented within Payables and other liabilities. This resulted in a reduction to opening retained earnings of NZ$17 million and an increase in deferred tax assets of NZ$7 million. Comparative information has not been restated. Refer to Note 1 for further details.

For and on behalf of the Board of Directors:

Rt Hon Sir John Key, GNZM AC
Chair
17 November 2020

Antonia Watson
Executive Director
17 November 2020

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

For the year ended 30 September	Note	2020 NZ$m	2019 NZ$m
Profit after income tax		1,373	1,819
Adjustments to reconcile to net cash flows from operating activities:			
Depreciation and amortisation		158	81
Loss on sale and impairment of premises and equipment		5	10
Goodwill impairment		28	-
Net derivatives/foreign exchange adjustment		(1,044)	246
Proceeds from divestments net of intangibles disposed of, classified as investing activities		(533)	(646)
Other non-cash movements		20	(130)
Net (increase)/decrease in operating assets:			
Collateral paid		930	(405)
Trading securities		(3,855)	(918)
Net loans and advances		(173)	(6,059)
Other assets		(372)	1,136
Net increase/(decrease) in operating liabilities:			
Deposits and other borrowings		11,634	5,419
Settlement balances payable		1,343	(554)
Collateral received		284	146
Other liabilities		(112)	53
Total adjustments		8,313	(1,621)
Net cash flows from operating activities[1]		9,686	198
Cash flows from investing activities			
Investment securities:			
Purchases		(5,569)	(2,347)
Proceeds from sale or maturity		2,790	1,963
Proceeds from divestments	26	659	747
Other assets		(64)	(88)
Net cash flows from investing activities		(2,184)	275
Cash flows from financing activities			
Debt issuances[2]			
Issue proceeds		2,327	4,010
Redemptions		(3,885)	(3,909)
Repayment of lease liabilities[3]		(50)	-
Dividends paid		(9)	(411)
Net cash flows from financing activities		(1,617)	(310)
Net change in cash and cash equivalents		5,885	163
Cash and cash equivalents at beginning of year		2,363	2,200
Cash and cash equivalents at end of year		8,248	2,363

1 Net cash provided by operating activities includes income taxes paid of NZ$691 million (2019: NZ$780 million).
2 Movement in debt issuances (Note 14 Debt Issuances) also includes a NZ$557 million decrease (2019: NZ$418 million increase) from the effect of foreign exchange rates, a NZ$286 million increase (2019: NZ$657 million increase) from changes in fair value hedging instruments and a NZ$61 million increase (2019: NZ$104 million decrease) of 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 8 to 70 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ$m	Investment securities revaluation reserve NZ$m	Cash flow hedging reserve NZ$m	Retained earnings NZ$m	Total equity NZ$m
As at 1 October 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		-	-	-	1,819	1,819
Unrealised losses recognised directly in equity		-	(24)	(7)	-	(31)
Realised losses transferred to the income statement		-	-	14	-	14
Actuarial loss on defined benefit schemes		-	-	-	(33)	(33)
Income tax credit / (expense) on items recognised directly in equity		-	7	(2)	10	15
Total comprehensive income for the year		-	(17)	5	1,796	1,784
Transactions with Immediate Parent Company in its capacity as owner:						
Ordinary dividends paid	5	-	-	-	(400)	(400)
Preference dividends paid	21	-	-	-	(11)	(11)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(411)	(411)
As at 30 September 2019		11,888	(6)	27	2,521	14,430
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		-	-	-	1,373	1,373
Unrealised gains recognised directly in equity		-	19	103	-	122
Realised losses transferred to the income statement		-	-	12	-	12
Actuarial loss on defined benefit schemes		-	-	-	(6)	(6)
Income tax credit / (expense) on items recognised directly in equity		-	(5)	(32)	1	(36)
Total comprehensive income for the year		-	14	83	1,368	1,465
Transactions with Immediate Parent Company in its capacity as owner:						
Preference dividends paid	21	-	-	-	(9)	(9)
Transactions with Immediate Parent Company in its capacity as owner		-	-	-	(9)	(9)
As at 30 September 2020		11,888	8	110	3,863	15,869

The notes appearing on pages 8 to 70 form an integral part of these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

These are the financial statements for ANZ Bank New Zealand Limited (the Bank) and its controlled entities (together, the 'Banking Group') for the year ended 30 September 2020. The Bank is incorporated and domiciled in New Zealand. The address of the Bank's registered office and its principal place of business is ANZ Centre, 23-29 Albert Street, Auckland, New Zealand.

On 17 November 2020, the Directors resolved to authorise the issue of these financial statements.

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

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

This section of the financial statements:

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

BASIS OF PREPARATION

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

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

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

BASIS OF MEASUREMENT

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

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

BASIS OF CONSOLIDATION

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

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

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

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

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

KEY JUDGEMENTS AND ESTIMATES

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

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

- the extent and duration of the disruption to business arising from the actions of governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn, and subsequent recovery. This includes the impacts on capital markets and liquidity, credit quality, increasing unemployment, declines in consumer spending, reductions in production, and other restructuring activities; and
- the effectiveness of government and central bank measures to support businesses and consumers through this disruption and economic downturn.

The Banking Group has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 September 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Banking Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets.

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

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

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 NZ$333 million presented within Payables and other liabilities and ROU assets of NZ$309 million presented within Premises and equipment. This resulted in a reduction to opening retained earnings of NZ$17 million and an increase in deferred tax assets of NZ$7 million as of 1 October 2019. Comparatives have not been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

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 was 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 IBORs 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 IBORs 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* (NZ IAS 39). 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.

In September 2020, the XRB issued *Interest Rate Benchmark Reform - Phase 2*, which is mandatory for the Banking Group for the 2022 financial year. This standard addresses issues that may affect the Banking Group at the point of transition from an existing IBOR rate to a RFR, including the effects of changes to contractual cash flows or hedging relationships. The standard includes amendments in respect of:

- *Modification of a financial asset or a financial liability measured at amortised cost*
  IBOR reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Banking Group. The amendments provide a practical expedient to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate. As a result, no immediate gain or loss is recognised. This applies when the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

- *Additional relief for hedging relationships*
  The Standard also amends a number of existing hedge accounting requirements that will assist the Banking Group to maintain its existing hedge accounted relationships post IBOR transition. The Banking Group will continue to record any ongoing hedge ineffectiveness, including that generated by changes as a result of interest rate reform, within the income statement.

The Banking Group is in the process of assessing the impact of the new standard on its financial statements.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

Impact of IBOR reform

The Banking Group has exposure to IBORs 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 the 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

Certain IBORs are subject to replacement RFRs. The Banking Group has hedge accounting relationships referencing IBORs, with the most significant interest rate benchmarks for these hedging relationships being 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 is also included:

	As at 30 September 2020
	US dollar LIBOR exposures NZ$m
Hedged items	
Debt issuances	9,218

	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	2,659	6,078	8,737

As at 30 September 2020, the Banking Group also has Swiss franc LIBOR exposures designated in hedge accounting relationships of NZ$1,031 million.

In addition to hedge accounted relationships that will be impacted by IBOR reform, the Banking Group has exposures to other financial instruments referencing an IBOR that are also subject to reform. The Banking Group is continuing to monitor market developments in relation to the transition to RFRs from IBORs and their impact on the Banking Group's financial assets and liabilities to ensure that there are no unexpected consequences or disruption from the transition.

NZ IFRIC 23 *UNCERTAINTY OVER INCOME TAX TREATMENTS* (NZ IFRIC 23)

NZ IFRIC 23 became effective for the Banking Group from 1 October 2019. NZ IFRIC 23 clarifies application of recognition and measurement requirements in NZ IAS 12 *Income Taxes* where there is uncertainty over income tax treatments. As the Banking Group's existing policy aligned with the requirements of NZ IFRIC 23, it had no material impact on the Banking Group.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2020, and have not been applied by the Banking Group in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

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

REVISED CONCEPTUAL FRAMEWORK

In May 2018 the XRB issued a revised Conceptual Framework for Financial Reporting. The new framework includes updated definitions and criteria for the recognition and derecognition of assets and liabilities. Additionally, it introduces new concepts on measurement, including factors to consider when selecting a measurement basis. The revised Conceptual Framework will apply to the Banking Group from 1 October 2020 and is not expected to have a material impact on the Banking Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING INCOME

	Note	2020 NZ$m	2019 NZ$m
Net interest income			
Interest income by type of financial asset			
Financial assets at amortised cost		5,277	6,062
Trading securities		148	203
Investment securities		143	157
Financial assets at fair value through profit or loss		-	1
Interest income		5,568	6,423
Interest expense by type of financial liability			
Financial liabilities at amortised cost		(2,272)	(3,134)
Financial liabilities designated at fair value through profit or loss		(34)	(45)
Interest expense		(2,306)	(3,179)
Net interest income		3,262	3,244
Other operating income			
(i) Fee and commission income			
Lending fees		33	33
Non-lending fees		673	796
Commissions		57	65
Funds management income		258	257
Fee and commission income		1,021	1,151
Fee and commission expense		(463)	(485)
Net fee and commission income		558	666
(ii) Other income			
Net foreign exchange earnings and other financial instruments income[1]		261	117
Sale of UDC	26	(32)	-
Sale of OnePath	26	-	66
Sale of investment in Paymark Limited (Paymark)	26	-	39
Other		20	27
Other income		249	249
Other operating income		807	915
Net income from insurance business		-	27
Share of associates' profit		-	4
Operating income		4,069	4,190

1 Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk on funding instruments, ineffective portions of cashflow hedges, and fair value movements in financial assets and liabilities designated at fair value through profit or loss.

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest income and expense

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

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

OTHER OPERATING INCOME

Fee and commission income

We recognise fees or commissions:

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

Net foreign exchange earnings and other financial instruments income

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

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

NET INCOME FROM INSURANCE BUSINESS

We recognise:

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

SHARE OF ASSOCIATES' PROFIT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. OPERATING EXPENSES

	Note	2020 NZ$m	2019 NZ$m
Personnel			
Salaries and related costs		886	858
Superannuation costs		29	29
Other		73	35
Personnel		988	922
Premises			
Rent		21	81
Depreciation		96	32
Other		40	40
Premises[1]		157	153
Technology			
Depreciation and amortisation		62	48
Subscription licences and outsourced services		138	116
Other		39	41
Technology (excluding personnel)		239	205
Other			
Advertising and public relations		43	47
Amortisation of other intangible assets		-	1
Professional fees		58	64
Freight, stationery, postage and communication		41	44
Goodwill impairment	19	28	-
Charges from Ultimate Parent Bank		97	60
Other		101	112
Other		368	328
Operating expenses		1,752	1,608

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 leases are shown as depreciation of the ROU asset and interest expense associated with the lease liability (comparatives not restated).

RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

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

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

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

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

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

4. INCOME TAX

INCOME TAX EXPENSE

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

	2020 NZ$m	2019 NZ$m
Profit before income tax	1,914	2,481
Prima facie income tax expense at 28%	536	695
Tax effect of permanent differences:		
Imputed and non-assessable dividends	-	(1)
Sale of UDC	9	-
Sale of OnePath and Paymark	-	(29)
Tax provisions no longer required	(3)	(4)
Non-assessable income and non-deductible expenditure	2	2
Subtotal	544	663
Income tax over provided in previous years	(3)	(1)
Income tax expense	541	662
Current tax expense	821	740
Adjustments recognised in the current year in relation to the current tax of prior years	(3)	(1)
Deferred tax income relating to the origination and reversal of temporary differences	(277)	(77)
Income tax expense	541	662
Effective tax rate	28.3%	26.7%

RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total dividend NZ$m
Financial Year 2019		
Dividend paid in March 2019	6.3 cents	400
Financial Year 2020		
No dividends were paid during the year ended 30 September 2020	-	-

IMPUTATION CREDIT ACCOUNT

	2020 NZ$m	2019 NZ$m
Imputation credits available	6,443	5,660

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

6. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

The Banking Group is organised into three major business segments for segment reporting purposes - 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, the agricultural business segment, government and government related entities.

Institutional

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

- **Transaction Banking** provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- **Corporate Finance (previously Loans and 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 and debt capital markets in addition to managing the Banking Group's interest rate exposure and liquidity position.

Other

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

6. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

	Retail		Commercial[1]		Institutional		Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
For the year ended 30 September	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Net interest income	1,812	1,798	1,073	1,057	345	344	32	45	3,262	3,244
Net fee and commission income										
- Lending fees	15	16	1	1	17	16	-	-	33	33
- Non-lending fees	610	714	10	16	53	62	-	4	673	796
- Commissions	57	65	-	-	-	-	-	-	57	65
- Funds management income	258	257	-	-	-	-	-	-	258	257
- Fee and commission expense	(463)	(485)	-	-	-	-	-	-	(463)	(485)
Net fee and commission income	477	567	11	17	70	78	-	4	558	666
Other income	13	7	-	-	308	172	(72)	70	249	249
Net income from insurance business	-	19	-	-	-	-	-	8	-	27
Share of associates' profits	-	4	-	-	-	-	-	-	-	4
Other operating income	490	597	11	17	378	250	(72)	82	807	946
Operating income	2,302	2,395	1,084	1,074	723	594	(40)	127	4,069	4,190
Operating expenses	(1,214)	(1,078)	(303)	(274)	(198)	(216)	(37)	(40)	(1,752)	(1,608)
Profit before credit impairment and income tax	1,088	1,317	781	800	525	378	(77)	87	2,317	2,582
Credit impairment charge	(145)	(47)	(223)	(47)	(35)	(7)	-	-	(403)	(101)
Profit before income tax	943	1,270	558	753	490	371	(77)	87	1,914	2,481
Income tax expense	(273)	(354)	(156)	(211)	(138)	(104)	26	7	(541)	(662)
Profit / (loss) after income tax	670	916	402	542	352	267	(51)	94	1,373	1,819
Financial position										
Goodwill	1,011	1,039	926	1,052	1,069	1,069	-	-	3,006	3,160
Net loans and advances	86,362	81,789	39,333	43,464	6,993	7,270	10	2	132,698	132,525
Customer deposits	79,867	73,866	18,437	16,138	22,559	19,232	-	-	120,863	109,236

1 UDC was part of the Commercial segment until the sale on 1 September 2020, refer to Note 26 Divestments for further details.

OTHER SEGMENT

The Other segment profit after income tax comprises:

	2020 NZ$m	2019 NZ$m
Central functions	4	3
Technology and Group Centre[1,2,3]	(33)	215
Economic hedges[2]	(22)	(43)
Revaluation of insurance policies from changes in interest rates[3]	-	(81)
Total	(51)	94

1 Technology and Group Centre's other income for the year ended 30 September 2020 includes the NZ$32 million loss on sale of UDC (2019: NZ$66 million gain on sale of OnePath and the NZ$39 million gain on sale of Paymark) (Note 2 Operating Income).

2 Amounts for the year ended 30 September 2020 include the transfer of NZ$23 million of accumulated after tax unrealised losses on economic hedges of UDC loans and advances to Technology and Group Centre. These losses were transferred upon the sale of UDC.

3 Amounts for the year ended 30 September 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL ASSETS

CLASSIFICATION AND MEASUREMENT

Financial assets - general

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

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

The resultant financial asset classifications are as follows:

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

Fair value option for financial assets

A financial asset may be irrevocably designated at FVTPL on initial recognition when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

7. CASH AND CASH EQUIVALENTS

	2020 NZ$m	2019 NZ$m
Coins, notes and cash at bank	187	192
Securities purchased under agreements to resell in less than 3 months	782	297
Balances with central banks	7,108	1,448
Settlement balances receivable within 3 months	171	426
Cash and cash equivalents	**8,248**	2,363

8. TRADING SECURITIES

	2020 NZ$m	2019 NZ$m
Government securities[1]	11,251	7,667
Corporate and financial institution securities[1]	1,546	1,275
Trading securities	12,797	8,942

[1] In 2020, the Banking Group reclassified trading securities issued by development banks and supra-nationals from Corporate and financial institution securities to Government securities. Comparative information has been restated accordingly, with NZ$3,313 million reclassified as Government securities from Corporate and financial institution securities.

RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value	Assets 2020 NZ$m	Liabilities 2020 NZ$m	Assets 2019 NZ$m	Liabilities 2019 NZ$m
Derivative financial instruments - held for trading	8,423	(6,887)	10,734	(9,755)
Derivative financial instruments - designated in hedging relationships	1,279	(1,365)	932	(1,287)
Derivative financial instruments	9,702	(8,252)	11,666	(11,042)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

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

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

TYPES

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

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

RISKS MANAGED

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

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – HELD FOR TRADING

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

Fair value	Assets 2020 NZ$m	Liabilities 2020 NZ$m	Assets 2019 NZ$m	Liabilities 2019 NZ$m
Interest rate contracts				
Forward rate agreements	7	(8)	6	(6)
Futures contracts	8	(4)	10	(10)
Swap agreements	5,926	(3,714)	6,059	(4,671)
Options purchased	3	(2)	3	-
Total	5,944	(3,728)	6,078	(4,687)
Foreign exchange contracts				
Spot and forward contracts	1,009	(955)	2,264	(1,785)
Swap agreements	1,432	(2,155)	2,340	(3,225)
Options purchased	26	-	35	(1)
Options sold	-	(27)	1	(35)
Total	2,467	(3,137)	4,640	(5,046)
Commodity contracts and credit default swaps	12	(22)	16	(22)
Derivative financial instruments - held for trading	8,423	(6,887)	10,734	(9,755)

DERIVATIVE FINANCIAL INSTRUMENTS – DESIGNATED IN HEDGING RELATIONSHIPS

The Banking Group uses two types of hedge accounting relationships:

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

Under the policy choice provided by NZ IFRS 9, the Banking Group has continued to apply the hedge accounting requirements of NZ IAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	2020			2019		
	Nominal amount NZ$m	Assets NZ$m	Liabilities NZ$m	Nominal amount NZ$m	Assets NZ$m	Liabilities NZ$m
Fair value hedges						
Interest rate swap agreements	27,905	644	(818)	25,956	365	(727)
Cash flow hedges						
Interest rate swap agreements	41,191	635	(547)	37,730	567	(560)
Derivative financial instruments - designated in hedging relationships	69,096	1,279	(1,365)	63,686	932	(1,287)

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2020 is:

Nominal amount	Average interest rate	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Fair value hedges						
Interest rate	1.54%	79	3,196	16,221	8,409	27,905
Cash flow hedges						
Interest rate	1.83%	5,195	12,890	21,477	1,629	41,191

The maturity profile of the nominal amounts of our hedging instruments held at 30 September 2019 is:

Nominal amount	Average interest rate	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	Total NZ$m
Fair value hedges						
Interest rate	1.88%	-	1,860	15,587	8,509	25,956
Cash flow hedges						
Interest rate	2.22%	531	3,010	30,561	3,628	37,730

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

	Ineffectiveness						Amount reclassified from the cash flow hedge reserve to profit and loss	
	Change in value of hedging instrument		Change in value of hedged item		Hedge ineffectiveness recognised in profit and loss			
	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Fair value hedges[1]								
Interest rate	217	459	(215)	(464)	2	(5)	-	-
Cash flow hedges[1]								
Interest rate	103	(6)	(103)	7	-	1	12	14

[1] All instruments are held within derivative financial instruments.

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedged items in relation to the Banking Group's fair value hedges as at 30 September 2020 are as follows:

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

Hedged items in relation to the Banking Group's fair value hedges as at 30 September 2019 are as follows:

			Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
	Balance sheet presentation	Hedged risk	Assets NZ$m	Liabilities NZ$m	Assets NZ$m	Liabilities NZ$m
Fixed rate loans and advances	Net loans and advances	Interest rate	1,122	-	-	-
Fixed rate debt issuances	Debt issuances	Interest rate	-	(18,784)	-	(357)
Fixed rate investment securities (FVOCI)[1]	Investment securities	Interest rate	6,745	-	259	-
Total			7,867	(18,784)	259	(357)

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

The cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the balance sheet is NZ$11 million (2019: less than NZ$1 million).

Hedged items in relation to the Banking Group's cash flow hedges are as follows:

		Continuing hedges		Discontinued hedges	
	Hedged risk	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Floating rate loans and advances	Interest rate	577	516	-	(1)
Floating rate customer deposits	Interest rate	(421)	(465)	(4)	(13)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

RECOGNITION AND MEASUREMENT

Recognition	Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability. Valuation adjustments are integral in determining the fair value of derivatives. This includes: • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when the Banking Group's contractual obligations are discharged, cancelled or expired.
Impact on the income statement	How we recognise gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedging relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss. For an instrument designated into a hedging relationship the recognition of gains or losses depends on the nature of the item being hedged. Refer to the previous table on page 21 for profit or loss treatment depending on the hedge type. Sources of hedge ineffectiveness may arise from basis risk and differences in discounting between the hedged items and the hedging instruments. The hedging instruments are discounted using Overnight Index Swaps discount curves which are not applied to the hedged items.
Hedge effectiveness	To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met: • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). The Banking Group monitors hedge effectiveness on a regular basis but at a minimum at least at each reporting date.

KEY JUDGEMENTS AND ESTIMATES

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

10. INVESTMENT SECURITIES

	2020 NZ$m	2019 NZ$m
Investment securities measured at fair value through other comprehensive income		
Debt securities	9,892	7,026
Equity securities	1	1
Total	9,893	7,027

As at 30 September 2020	Less than 3 months NZ$m	3 to 12 months NZ$m	1 to 5 years NZ$m	After 5 years NZ$m	No maturity NZ$m	Total NZ$m
Government securities[1]	1,021	641	6,662	1,168	-	9,492
Corporate and financial institution securities[1]	3	113	284	-	-	400
Equity securities	-	-	-	-	1	1
Total	1,024	754	6,946	1,168	1	9,893
As at 30 September 2019						
Government securities[1]	162	391	4,732	1,360	-	6,645
Corporate and financial institution securities[1]	3	35	343	-	-	381
Equity securities	-	-	-	-	1	1
Total	165	426	5,075	1,360	1	7,027

[1] In 2020, the Banking Group reclassified investment securities issued by development banks and supra-nationals from Corporate and financial institution securities to Government securities. Comparative information has been restated accordingly, with NZ$1,844 million reclassified as Government securities from Corporate and financial institution securities.

RECOGNITION AND MEASUREMENT

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

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

Assets disclosed as investment securities are subject to the general classification and measurement policy for financial assets outlined at the commencement of the Banking Group's Financial Asset disclosures on page 18.

KEY JUDGEMENTS AND ESTIMATES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. NET LOANS AND ADVANCES

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

	Note	2020 NZ$m	2019 NZ$m
Overdrafts		659	927
Credit cards		1,300	1,569
Term loans - housing		89,258	84,007
Term loans - non-housing		41,882	44,586
Finance lease and hire purchase receivables		-	1,863
Subtotal		133,099	132,952
Unearned income		(26)	(237)
Capitalised brokerage/mortgage origination fees		319	307
Gross loans and advances		133,392	133,022
Allowance for expected credit losses	12	(694)	(497)
Net loans and advances		132,698	132,525
Residual contractual maturity:			
Within one year		35,158	27,816
More than one year		97,540	104,709
Net loans and advances		132,698	132,525

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$287 million as at 30 September 2020 (2019: NZ$739 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

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

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

ALLOWANCE FOR EXPECTED CREDIT LOSSES – BALANCE SHEET

Net loans and advances - at amortised cost

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

			Stage 3		
	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497
Transfer between stages	25	(30)	4	1	-
New and increased provisions (net of collective provision releases)	(2)	206	34	157	395
Write-backs	-	-	-	(34)	(34)
Bad debts written-off (excluding recoveries)	-	-	-	(92)	(92)
Discount unwind	-	-	-	(9)	(9)
Sale of UDC (refer to Note 26 Divestments)	(25)	(23)	(1)	(14)	(63)
As at 30 September 2020	162	347	79	106	694

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

Allowance for ECL is included in other provisions.

As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
As at 30 September 2019	60	24	2	11	97
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	17	36	1	11	65
Sale of UDC (refer to Note 26 Divestments)	(1)	(2)	-	-	(3)
As at 30 September 2020	79	55	3	22	159

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

Overall, loss allowances are 0.5% of gross balances as at 30 September 2020, up from 0.4% as at 30 September 2019. The NZ$259 million (43.6%) increase in loss allowances was driven by an increase in the proportion of gross balances in Stage 2 and Stage 3, and changes in the forward looking economic scenarios and changes in probability weightings as described in the key judgements and estimates section below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

CREDIT IMPAIRMENT CHARGE – INCOME STATEMENT

	2020 NZ$m	2019 NZ$m
New and increased provisions		
- Collectively assessed	291	32
- Individually assessed	169	140
Write-backs	(34)	(48)
Recoveries of amounts previously written-off	(23)	(23)
Total credit impairment charge	403	101

COVID-19 LOAN DEFERRAL AND RELIEF PACKAGES

Since March 2020, the Banking Group has offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided has included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates. Refer to Key Judgements and Estimates in this note for details on the impact of deferrals where there has been a Significant Increase in Credit Risk (SICR).

Loan deferral and relief packages are considered to be a loan modification under NZ IFRS 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification). The table below shows the outstanding balance as at 30 September 2020 of all loans that have been modified (both substantial and non-substantial modifications):

Assistance package category	Total loans outstanding as at 30 September 2020 NZ$m
Loan deferral package	
Retail	4,002
Commercial and other	208
Interest Only	
Retail	2,470
Commercial and other	534
Term extensions	
Retail	660
Commercial and other	71
Total	7,945
Retail	7,132
Commercial and other	813
Total	7,945

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS IMPAIRMENT MODEL

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

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

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

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

MEASUREMENT OF EXPECTED CREDIT LOSSES

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

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

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

EXPECTED LIFE

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

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

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

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

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

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

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

MODIFIED FINANCIAL ASSETS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

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

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

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

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

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

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

- COVID-19 initiatives
  For facilities subject to the COVID-19 payment deferral arrangements noted above, an assessment of SICR has been determined based on various measures of the customer's current financial position and earnings capacity from which the facilities are categorised into risk categories. SICR is then determined based on the resulting risk categorisation. Customers in higher risk categories, and those who have requested deferral extension are classified as having a SICR.

FORWARD LOOKING INFORMATION

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

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

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

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

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

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

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

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

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

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

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

The judgements and associated assumptions have been made within the context of the impacts 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	Considerations for the year ended 30 September 2020
Determining when a SICR has occurred	In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a loan, which would result in the financial asset moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance. The setting of precise trigger points requires judgement which may have a material impact upon the size of the ECL allowance. The Banking Group monitors the effectiveness of SICR criteria on an ongoing basis.	In response to the impacts of COVID-19, various packages, such as payment deferrals, have been offered to eligible retail and commercial customers. The Banking Group does not consider that when a customer is first provided assistance, all things being equal, that there has been a SICR and a consequent impact on ECL when assessing provisions. Subsequent to take-up, customers have been contacted to discuss available options once the packages reach their end date. This additional information on the customer's financial position and ability to recommence their loan repayments is used to assist in classification of customers into risk categories. Customers in high risk categories, and those who have requested a deferral extension, have been classified as having a SICR.
Measuring both 12-month and lifetime credit losses	The PD, LGD, and EAD credit risk parameters used in determining ECL are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity. In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility to be used in measuring ECL.	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 year ended 30 September 2020. There were no changes to behavioural lifetime estimates during the year ended 30 September 2020.

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Judgement / assumption	Description	Considerations for the year ended 30 September 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 current year. As at 30 September 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank policies, governments' actions, the response of business, 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 30 September 2020 are described below under the heading "Base case economic forecast assumptions".
Probability weighting of each scenario (base case, upside, downside and severe downside scenarios)[1,2]	Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case scenario at each measurement date.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. The Banking Group considers these weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them. In addition to the base case forecast which reflects the negative economic consequences of COVID-19, greater weighting has been applied to the downside and severe downside scenarios given the Banking Group's assessment of downside risks. The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.
Management temporary adjustments	Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, and natural disasters that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances. The use of management temporary adjustments may impact the amount of ECL recognised. The uncertainty associated with the COVID-19 pandemic, and the extent to which the actions of governments, businesses and consumers mitigate against potentially adverse credit outcomes are not fully incorporated into existing ECL models. Accordingly, management overlays have been applied to ensure credit provisions are appropriate.	Management have applied a number of adjustments to the modelled ECL primarily due to the uncertainty associated with COVID-19. Management overlays (including COVID-19 overlays) which add to the modelled ECL provision have been made for retail, commercial and agri banking.

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

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

KEY JUDGEMENTS AND ESTIMATES

Base case economic forecast assumptions

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

- the extent and duration of measures 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.

The economic drivers of the base case economic forecasts at 30 September 2020 are set out below. These reflect our view of the most likely future macro-economic conditions at 30 September 2020. For years beyond the near term forecasts below, the ECL models project future year economic conditions including an assumption to eventual reversion to mid-cycle economic conditions.

	Forecast calendar year		
New Zealand	2020	2021	2022
Gross domestic product (GDP)	-5.6%	2.0%	5.6%
Unemployment	5.7%	9.1%	6.5%
Residential property prices	-0.3%	0.9%	4.1%
Consumer price index (CPI)	1.6	1.0	1.2

The base case economic forecasts as at 30 September 2020 reflect a significant deterioration in current and expected economic conditions from the forecasts as at 30 September 2019 reflecting the emergence and ongoing impact of the COVID-19 pandemic.

Probability weightings

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario. The key consideration for probability weightings in the current period is the 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 given the Banking Group's assessment of downside risks.

The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Banking Group considers these weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Banking Group's credit portfolios in determining them. The average weightings applied are set out below:

	2020	2019
Base	50%	50%
Upside	8%	16%
Downside	32%	29%
Severe downside	10%	5%

ECL - Sensitivity analysis

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Banking Group's allowance for ECL. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

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

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 30 September 2020:

	ECL NZ$m	Impact NZ$m
If 1% of Stage 1 facilities were included in Stage 2	731	6
If 1% of Stage 2 facilities were included in Stage 1	724	(1)
100% upside scenario	461	(264)
100% base scenario	631	(94)
100% downside scenario	839	114
100% severe downside scenario	1,045	320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL LIABILITIES

CLASSIFICATION AND MEASUREMENT

Financial liabilities

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

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

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

13. DEPOSITS AND OTHER BORROWINGS

	Note	2020 NZ$m	2019 NZ$m
Term deposits		50,069	54,984
On demand and short term deposits		53,910	42,329
Deposits not bearing interest		16,884	11,795
UDC secured investments	17	-	128
Total customer deposits		120,863	109,236
Certificates of deposit		1,782	1,484
Commercial paper		1,748	2,461
Securities sold under repurchase agreements		646	203
Deposits from Immediate Parent Company and NZ Branch	27	22	43
Deposits and other borrowings		125,061	113,427
Residual contractual maturity:			
Within one year		121,421	109,696
More than one year		3,640	3,731
Deposits and other borrowings		125,061	113,427
Carried on balance sheet at:			
Amortised cost		123,313	110,966
Fair value through profit or loss (designated on initial recognition)		1,748	2,461
Deposits and other borrowings		125,061	113,427

RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

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

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

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

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

14. DEBT ISSUANCES

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

	2020 NZ$m	2019 NZ$m
Senior debt	17,476	19,307
Covered bonds	4,522	4,460
Total unsubordinated debt	**21,998**	23,767
Subordinated debt (Additional Tier 1 capital)	2,441	2,440
Total debt issued	**24,439**	26,207

TOTAL DEBT ISSUED BY CURRENCY

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

		2020 NZ$m	2019 NZ$m
AUD	Australian dollars	49	48
EUR	Euro	8,332	8,200
NZD	New Zealand dollars	4,921	6,160
CHF	Swiss Francs	1,053	1,522
USD	United States dollars	10,084	10,277
Total debt issued		**24,439**	26,207
Residual contractual maturity:			
Within one year		5,133	4,580
More than one year		19,306	21,627
Total debt issued		**24,439**	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.

SUBORDINATED DEBT

Certain subordinated debt qualifies as regulatory capital for the Banking Group and is classified as Additional Tier 1 (AT1) capital for RBNZ's capital adequacy purposes depending on its term and conditions. The Banking Group's AT1 Capital, which is comprised of perpetual capital instruments, includes ANZ NZ Capital Notes (ANZ NZ CN), ANZ NZ Internal Capital Notes 1 (ANZ NZ ICN), and ANZ NZ Internal Capital Notes 2 (ANZ NZ ICN2).

AT1 CAPITAL

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

As at 30 September 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). Early redemption is subject to RBNZ's, and in the case of ANZ NZ CN, APRA's prior written approval.

14. DEBT ISSUANCES (continued)

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

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

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

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

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

	ANZ NZ CN	ANZ NZ ICN	ANZ NZ ICN2
Issuer	The Bank	The Bank	The Bank
Issue date	31 March 2015	5 March 2015	15 June 2016
Issue amount	NZ$500 million	NZ$1,003 million	NZ$938 million
Face value	NZ$1	NZ$100	NZ$100
Interest frequency	Quarterly in arrears	Semi-annually in arrears	Semi-annually in arrears
Interest rate	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 30 September 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.

RECOGNITION AND MEASUREMENT

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

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

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

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

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

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

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

Internal Audit Function

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

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

15. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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

	Reported		Excluded[1]		Maximum exposure to credit risk	
	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
On-balance sheet positions						
Net loans and advances	**132,698**	132,525	**-**	-	**132,698**	132,525
Other financial assets:						
Cash and cash equivalents	**8,248**	2,363	**187**	192	**8,061**	2,171
Settlement balances receivable	**378**	193	**-**	-	**378**	193
Collateral paid	**1,394**	2,324	**-**	-	**1,394**	2,324
Trading securities	**12,797**	8,942	**-**	-	**12,797**	8,942
Derivative financial instruments	**9,702**	11,666	**-**	-	**9,702**	11,666
Investment securities	**9,893**	7,027	**-**	-	**9,893**	7,027
Other financial assets[2]	**547**	622	**-**	-	**547**	622
Total other financial assets	**42,959**	33,137	**187**	192	**42,772**	32,945
Subtotal	**175,657**	165,662	**187**	192	**175,470**	165,470
Off-balance sheet commitments						
Undrawn and contingent facilities[3]	**30,857**	29,253	**-**	-	**30,857**	29,253
Total	**206,514**	194,915	**187**	192	**206,327**	194,723

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CREDIT QUALITY

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

Net loans and advances

			Stage 3		
As at 30 September 2020	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
Strong	98,259	5,508	-	-	103,767
Satisfactory	21,446	4,578	-	-	26,024
Weak	405	1,734	-	-	2,139
Defaulted	-	-	808	361	1,169
Subtotal	120,110	11,820	808	361	133,099
Allowance for ECL	(162)	(347)	(79)	(106)	(694)
Net loans and advances at amortised cost	119,948	11,473	729	255	132,405
Coverage ratio	0.13%	2.94%	9.78%	29.36%	0.52%
Unearned income					(26)
Capitalised brokerage/mortgage origination fees					319
Net carrying amount					132,698
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

Other financial assets

	2020 NZ$m	2019 NZ$m
Strong	42,275	32,342
Satisfactory	447	575
Weak	50	28
Defaulted	-	-
Total carrying amount	42,772	32,945

15. FINANCIAL RISK MANAGEMENT (continued)

Off-balance sheet commitments - undrawn and contingent facilities

			Stage 3		
	Stage 1	Stage 2	Collectively assessed	Individually assessed	Total
As at 30 September 2020	NZ$m	NZ$m	NZ$m	NZ$m	NZ$m
Strong	25,525	302	-	-	25,827
Satisfactory	3,949	974	-	-	4,923
Weak	27	179	-	-	206
Defaulted	-	-	19	41	60
Gross undrawn and contingent facilities	29,501	1,455	19	41	31,016
Allowance for ECL included in Other provisions (refer to Note 20)	(79)	(55)	(3)	(22)	(159)
Net undrawn and contingent facilities	29,422	1,400	16	19	30,857
Coverage ratio	0.27%	3.78%	15.79%	53.66%	0.51%
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 20)	(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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

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

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
New Zealand residents								
Agriculture	17,049	17,855	70	84	862	1,021	17,981	18,960
Forestry and fishing, agriculture services	678	1,255	5	9	113	225	796	1,489
Manufacturing	2,407	2,682	161	378	2,350	2,004	4,918	5,064
Electricity, gas, water and waste services	1,098	1,414	567	514	1,991	1,834	3,656	3,762
Construction	1,150	1,832	26	32	955	1,039	2,131	2,903
Wholesale trade	1,243	1,488	69	94	1,797	1,681	3,109	3,263
Retail trade and accommodation	2,415	2,956	27	29	992	961	3,434	3,946
Transport, postal and warehousing	838	1,309	159	137	738	864	1,735	2,310
Finance and insurance services	948	816	11,139	6,203	1,800	1,627	13,887	8,646
Public administration and safety[1]	283	343	16,395	9,723	883	1,105	17,561	11,171
Rental, hiring & real estate services	35,529	33,340	1,270	1,212	2,314	3,112	39,113	37,664
Professional, scientific, technical, administrative and support services	923	1,126	7	11	545	631	1,475	1,768
Households	64,522	61,515	167	210	13,757	11,278	78,446	73,003
All other New Zealand residents[2]	2,059	2,537	153	242	1,796	1,847	4,008	4,626
Subtotal	131,142	130,468	30,215	18,878	30,893	29,229	192,250	178,575
Overseas								
Finance and insurance services	127	148	12,540	14,030	123	121	12,790	14,299
Households	1,172	1,553	3	5	-	-	1,175	1,558
All other non-NZ residents	658	783	14	32	-	-	672	815
Subtotal	1,957	2,484	12,557	14,067	123	121	14,637	16,672
Gross total	133,099	132,952	42,772	32,945	31,016	29,350	206,887	195,247
Allowance for ECL	(694)	(497)	-	-	(159)	(97)	(853)	(594)
Subtotal	132,405	132,455	42,772	32,945	30,857	29,253	206,034	194,653
Unearned income	(26)	(237)	-	-	-	-	(26)	(237)
Capitalised brokerage / mortgage origination fees	319	307	-	-	-	-	319	307
Maximum exposure to credit risk	132,698	132,525	42,772	32,945	30,857	29,253	206,327	194,723

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.

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

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

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

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

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

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Net loans and advances	**132,698**	132,525	**125,770**	124,249	**6,928**	8,276
Other financial assets	**42,772**	32,945	**2,761**	1,857	**40,011**	31,088
Off-balance sheet positions	**30,857**	29,253	**15,291**	14,152	**15,566**	15,101
Total	**206,327**	194,723	**143,822**	140,258	**62,505**	54,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

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

MEASUREMENT OF MARKET RISK

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

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

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

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

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

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

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

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

	2020				2019			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Traded value at risk 99% confidence								
Foreign exchange	0.7	2.0	0.2	0.7	0.5	1.0	0.2	0.5
Interest rate	6.1	8.7	1.0	3.2	1.4	2.5	0.6	1.2
Credit	1.2	1.6	0.4	0.8	0.6	0.7	0.3	0.4
Diversification benefit[1]	(1.3)	n/a	n/a	(0.9)	(0.7)	n/a	n/a	(0.8)
Total VaR	6.7	10.3	1.1	3.8	1.8	2.6	0.8	1.3

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

Non-traded market risk

Balance sheet risk management

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

Interest rate risk management

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

	2020				2019			
	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m	As at NZ$m	High for year NZ$m	Low for year NZ$m	Average for year NZ$m
Non-traded value at risk 99% confidence								
Total VaR	29.1	29.1	9.5	16.6	10.0	10.0	7.4	8.4

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

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

	2020	2019
Impact of 1% rate shock		
As at period end	-0.6%	0.2%
Maximum exposure	1.5%	1.0%
Minimum exposure	-0.6%	-0.7%
Average exposure (in absolute terms)	0.5%	0.3%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

KEY AREAS OF MEASUREMENT FOR LIQUIDITY RISK

Supervision and regulation

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

Scenario modelling

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

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

As of 30 September 2020 the Banking Group was in compliance with the above scenarios.

Structural balance sheet metrics

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

Wholesale funding

The Banking Group's wholesale funding strategy is designed to deliver a sustainable portfolio of wholesale funds that balances cost efficiency with targeting diversification by markets, investors, currencies, maturities and funding structures. Short-term and long-term wholesale funding is managed and executed by Treasury operations.

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

Funding capacity and debt issuance planning

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

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

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

Total liquidity portfolio

	2020 NZ$m	2019 NZ$m
Cash and balances with central banks	7,385	1,734
Certificates of deposit	389	374
Central and local government bonds	10,729	7,922
Government treasury bills	3,909	55
Other bonds	7,525	7,256
Total liquidity portfolio	29,937	17,341

Assets held in the Banking Group's liquidity portfolio include short term cash held with RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated New Zealand domestic corporates. These assets would be accepted as collateral by RBNZ in repurchase transactions. At 30 September 2020, the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$22,552 million (2019: NZ$15,607 million). The Banking Group also held unencumbered internal residential mortgage backed securities (RMBS) which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$8,184 million at 30 September 2020 (2019: NZ$7,179 million).

Liquidity crisis contingency planning

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

FUNDING POSITION

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

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

	Note	2020 NZ$m	2019 NZ$m
Funding composition			
Customer deposits	13	**120,863**	109,236
Wholesale funding			
Debt issuances		**24,439**	26,207
Certificates of deposit and commercial paper		**3,530**	3,945
Other borrowings		**668**	246
Total wholesale funding		**28,637**	30,398
Total funding		**149,500**	139,634
Customer deposits by industry - New Zealand residents			
Agriculture, forestry and fishing		**4,109**	3,727
Manufacturing		**2,863**	2,152
Construction		**2,750**	2,194
Wholesale trade		**2,407**	2,020
Retail trade and accommodation		**2,280**	1,543
Financial and insurance services		**14,491**	11,458
Rental, hiring and real estate services		**3,691**	3,210
Professional, scientific, technical, administrative and support services		**5,748**	5,467
Public administration and safety		**2,043**	1,479
Arts, recreation and other services		**2,199**	1,968
Households		**64,203**	59,131
All other New Zealand residents[1]		**4,280**	3,553
		111,064	97,902
Customer deposits by industry - overseas			
Households		**9,219**	10,118
All other non-NZ residents		**580**	1,216
		9,799	11,334
Total customer deposits		**120,863**	109,236
Wholesale funding (financial and insurance services industry)			
New Zealand		**6,814**	7,799
Overseas		**21,823**	22,599
Total wholesale funding		**28,637**	30,398
Total funding		**149,500**	139,634
Concentrations of funding by geography			
New Zealand		**117,878**	105,701
Australia		**1,243**	775
United States		**12,223**	13,844
Europe		**10,976**	11,139
Other countries		**7,180**	8,175
Total funding		**149,500**	139,634

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.

15. FINANCIAL RISK MANAGEMENT (continued)

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

The tables below provide residual contractual maturity analysis of financial liabilities at 30 September 2020 and 30 September 2019 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which the Banking Group may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how the Banking Group manages its liquidity risk. The management of this risk is detailed on page 46.

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

2019	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	1,114	504	-	-	-	1,618
Collateral received	-	991	-	-	-	991
Deposits and other borrowings	54,183	27,187	29,476	4,065	-	114,911
Derivative financial liabilities (trading)	-	9,530	-	-	-	9,530
Debt issuances[1]	-	284	4,859	16,925	5,277	27,345
Other financial liabilities	-	148	28	106	108	390
Derivative financial instruments (balance sheet management)						
- gross inflows	-	842	2,067	8,426	714	12,049
- gross outflows	-	(974)	(2,444)	(9,084)	(723)	(13,225)

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

[2] On adoption of NZ IFRS 16 on 1 October 2019, the Banking Group recognised right-of-use assets of NZ$309 million presented within Premises and equipment and lease liabilities of NZ$333 million presented within Payables and other liabilities. This resulted in a reduction to opening retained earnings of NZ$17 million and an increase in deferred tax assets of NZ$7 million. Comparative information has not been restated. Refer to Note 1 for further details.

At 30 September 2020, NZ$14 million (2019: NZ$59 million) of the Banking Group's non-credit related commitments and NZ$31,016 million (2019: NZ$29,350 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which the Banking Group may be required to pay.

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

VALUATION

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

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

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

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

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

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

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

		2020			2019		
	Note	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m	At amortised cost NZ$m	At fair value NZ$m	Total NZ$m
Financial assets							
Cash and cash equivalents	7	8,248	-	8,248	2,363	-	2,363
Settlement balances receivable		378	-	378	193	-	193
Collateral paid		1,394	-	1,394	2,324	-	2,324
Trading securities	8	-	12,797	12,797	-	8,942	8,942
Derivative financial instruments	9	-	9,702	9,702	-	11,666	11,666
Investment securities	10	-	9,893	9,893	-	7,027	7,027
Net loans and advances	11	132,698	-	132,698	132,525	-	132,525
Other financial assets		547	-	547	622	-	622
Total		143,265	32,392	175,657	138,027	27,635	165,662
Financial liabilities							
Settlement balances payable		2,950	-	2,950	1,607	-	1,607
Collateral received		1,275	-	1,275	991	-	991
Deposits and other borrowings	13	123,313	1,748	125,061	110,966	2,461	113,427
Derivative financial instruments	9	-	8,252	8,252	-	11,042	11,042
Debt issuances	14	24,439	-	24,439	26,207	-	26,207
Other financial liabilities		679	158	837	628	213	841
Total		152,656	10,158	162,814	140,399	13,716	154,115

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

FAIR VALUE HIERARCHY

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

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

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

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Assets								
Trading securities	8,848	8,319	3,949	623	-	-	12,797	8,942
Derivative financial instruments	8	10	9,691	11,653	3	3	9,702	11,666
Investment securities	9,892	7,026	-	-	1	1	9,893	7,027
Total	18,748	15,355	13,640	12,276	4	4	32,392	27,635
Liabilities								
Deposits and other borrowings	-	-	1,748	2,461	-	-	1,748	2,461
Derivative financial instruments	4	11	8,248	11,031	-	-	8,252	11,042
Other financial liabilities	158	213	-	-	-	-	158	213
Total	162	224	9,996	13,492	-	-	10,158	13,716

Fair value designation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

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

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

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

	Carrying amount		Categorised into fair value hierarchy: Quoted market price (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Fair value (total)	
	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
Financial assets										
Net loans and advances	132,698	132,525	-	-	133	167	133,172	132,920	133,305	133,087
Total	132,698	132,525	-	-	133	167	133,172	132,920	133,305	133,087
Financial liabilities										
Deposits and other borrowings	123,313	110,966	-	-	123,486	111,098	-	-	123,486	111,098
Debt issuances	24,439	26,207	2,637	2,848	22,111	23,737	-	-	24,748	26,585
Total	147,752	137,173	2,637	2,848	145,597	134,835	-	-	148,234	137,683

KEY JUDGEMENTS AND ESTIMATES

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

The majority of valuation models the Banking Group uses employ only observable market data as inputs. This has not changes as a result of COVID-19, however, the Banking Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

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

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

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

The following disclosure excludes the amounts presented as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of those collateral agreements are included in the standard CSA that forms part of the ISDA Master Agreement.

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

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

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

	2020 NZ$m	2019 NZ$m
Securities sold under agreements to repurchase[1]	646	203
Assets pledged as collateral for UDC secured investments[2]	-	3,484
Total assets of the ANZNZ Covered Bond Trust pledged as security for covered bonds	11,474	11,600

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

2 UDC secured investments were secured by a security interest over all of UDC's assets. The Banking Group divested of UDC during 2020 and, therefore, there are no longer any associated collateral balances requiring disclosure by the Banking Group.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

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

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

	2020 NZ$m	2019 NZ$m
Fair value of assets which can be sold or repledged	790	300
Fair value of assets sold or repledged	290	81

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. OFFSETTING

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

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

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

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

			Amount subject to master netting agreement or similar			
2020	Total amounts recognised in the balance sheet NZ$m	Amounts not subject to master netting agreement or similar NZ$m	Total NZ$m	Financial instruments NZ$m	Financial collateral (received)/ pledged NZ$m	Net amount NZ$m
Derivative financial instruments	9,702	(3,257)	6,445	(4,462)	(342)	1,641
Reverse repurchase agreements [1]	782	-	782	-	(782)	-
Total financial assets	10,484	(3,257)	7,227	(4,462)	(1,124)	1,641
Derivative financial instruments	(8,252)	2,890	(5,362)	4,462	417	(483)
Repurchase agreements [2]	(646)	-	(646)	-	646	-
Total financial liabilities	(8,898)	2,890	(6,008)	4,462	1,063	(483)
2019						
Derivative financial instruments	11,666	(3,061)	8,605	(6,468)	(541)	1,596
Reverse repurchase agreements [1]	297	-	297	-	(297)	-
Total financial assets	11,963	(3,061)	8,902	(6,468)	(838)	1,596
Derivative financial instruments	(11,042)	2,340	(8,702)	6,468	858	(1,376)
Repurchase agreements [2]	(203)	-	(203)	-	203	-
Total financial liabilities	(11,245)	2,340	(8,905)	6,468	1,061	(1,376)

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

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill		Software		Other intangibles		Total	
	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Balance at start of year	3,160	3,160	40	53	76	76	3,276	3,289
Additions	-	-	3	9	-	-	3	9
Disposals[1]	(126)	-	-	-	-	-	(126)	-
Amortisation expense	-	-	(33)	(22)	-	-	(33)	(22)
Impairment expense[2]	(28)	-	-	-	-	-	(28)	-
Balance at end of year	3,006	3,160	10	40	76	76	3,092	3,276

1 Relates to the sale of UDC, refer to Note 26 Divestments.

2 Relates to the wind up of the Bonus Bonds Scheme, see below.

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

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

Goodwill and other intangible assets with indefinite useful lives are allocated to CGUs as follows:

	Goodwill		Other intangibles	
Cash generating unit	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Retail and business banking	893	893	-	-
Wealth	118	146	76	76
Retail segment	1,011	1,039	76	76
Commercial	926	1,052	-	-
Institutional	1,069	1,069	-	-
Total	3,006	3,160	76	76

Impairment expense recognised

On 26 August 2020, ANZ Investment Services (New Zealand) Limited (ANZIS), a subsidiary of the Bank and Manager of the Bonus Bonds Scheme (Bonus Bonds), announced that it intended to start winding up Bonus Bonds no later than 31 October 2020. The wind up formally commenced on 31 October 2020.

ANZIS contributed NZ$28 million of goodwill when it joined the Wealth CGU, which is reported in the Retail segment. As ANZIS ceased charging Bonus Bonds management fees from 1 September 2020, the recoverable amount of ANZIS operations relating to the management of Bonus Bonds was considered to be nil, and therefore this goodwill was impaired. This was a value in use assessment, and no discount rate was required as there were no future cash inflows to discount.

Impairment testing as at 30 September 2020

The annual impairment test is performed as at the end of February each year and, as the Overseas Banking Group's market capitalisation was below its net asset value, and considering uncertainties surrounding COVID-19, we assessed the carrying value of goodwill as at 30 September 2020.

Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal (FVLCOD) and its value-in use (VIU). We use a value-in-use approach to estimate the recoverable amount of the CGU to which each goodwill component is allocated. We also estimated the FVLCOD for each CGU as at 30 September 2020, however as the VIU was higher for all CGUs except Institutional, where the FVLCOD was not materially higher, the disclosures below are for the VIU assessment. Based on this assessment no impairment was identified for any CGU.

VALUE-IN-USE

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Input / assumption	Values applied in 30 September 2020 impairment test
Forecast period and projections	Eight years - an extended forecast period was used to cover the implementation period of the RBNZ's increased capital requirements over the period 1 July 2021 to 1 July 2028.
Revenue growth over forecast period	Comprises impacts of net interest margin and volume growth, arising from planned responses to known regulatory and economic forecasts, and a forecast increase in the Official Cash Rate (OCR) to 2.5% by 2028. Average annual forecast revenue growth varies by CGU as follows: Retail & business banking +5.8%; Wealth +2.7%; Commercial +4.8%; Institutional +0.6%.
Credit impairment over forecast period	Varies by CGU, based on ECL modelling for 2021 to 2023, before returning to long run experience levels for 2024 to 2028. Long run experience levels are based on the Banking Group's bad debts written off, net of recoveries, since 2004 of 0.15% of gross loans and advances. Values applied for 2024 to 2028 (all as a proportion of forecast gross loans and advances) were: Retail & business banking 0.13%; Wealth 0.01%; Commercial 0.22%; Institutional 0.12%.
Terminal growth rate	1.5% - based on 2023 forecast inflation from the RBNZ's August 2020 Monetary Policy Statement
Discount rate	9.3% (February 2019: 11.1%). Implied pre-tax: Retail & business banking 16.7%; Wealth 16.0%; Commercial 17.1%; Institutional 17.0%. (February 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 the traded 10 year New Zealand government bond yield as at 30 September 2020 of 0.46%. The market risk premium was calculated using observed changes in the NZX50 index and average annual traded 10 year New Zealand government bond yields since 2003. Beta was consistent with observable measures applied in the regional banking sector. The 30 September 2020 implied pre-tax discount rates are significantly higher than the post-tax discount rate because of the impact of regulatory capital retention over the forecast period which is not tax effected.

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

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

	Commercial		Institutional	
	Forecast Value	Change required	Forecast Value	Change required
Amount by which recoverable amount exceeds carrying amount (NZ$m)	599	n/a	174	n/a
Value of assumption and change (in basis points) required to reduce recoverable amount to nil:				
Average annual revenue growth over forecast period (including impact of OCR)	4.8%	-100 bp	0.6%	-50 bp
Average annual credit impairment FY24-FY28	0.22%	+21 bp	0.12%	+34 bp
Discount rate	9.3%	+70 bp	9.3%	+40 bp
Terminal growth rate	1.5%	-510 bp	1.5%	-180 bp

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

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

Goodwill

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. OTHER PROVISIONS

	Note	2020 NZ$m	2019 NZ$m
ECL allowance on undrawn facilities	12	159	97
Customer remediation		141	139
Restructuring costs		36	25
Leasehold make good		23	23
Other		30	30
Total other provisions		389	314

Movements in other provisions

	Customer remediation NZ$m	Restructuring costs NZ$m	Leasehold make good NZ$m	Other NZ$m
Balance at start of year	139	25	23	30
New and increased provisions made during the year	93	21	6	13
Provisions used during the year	(81)	(10)	(6)	(11)
Unused amounts reversed during the year	(4)	-	-	(2)
Sale of UDC (refer to Note 26 Divestments)	(6)	-	-	-
Balance at end of year	141	36	23	30

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

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

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

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

20. OTHER PROVISIONS (continued)

RECOGNITION AND MEASUREMENT

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

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

KEY JUDGEMENTS AND ESTIMATES

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

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including the number of impacted customers, the average refund per customer 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. SHAREHOLDERS' EQUITY

	Number of issued shares		NZ$ millions	
	2020	2019	2020	2019
Ordinary shares[1]	6,345,755,498	6,345,755,498	11,588	11,588
Preference shares	300,000,000	300,000,000	300	300
Total share capital	6,645,755,498	6,645,755,498	11,888	11,888

1 There are no uncalled shares (2019: 650,712).

Preference shares

The key terms of the preference shares are as follows:

Dividends

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

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

Redemption features

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

- on any date on or after a change to laws or regulations that adversely affects the regulatory capital or tax treatment of the preference shares; or
- on any dividend payment date; 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.

RECOGNITION AND MEASUREMENT

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

22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

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

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

The Banking Group has minimum and trigger levels for common equity tier 1, tier 1 and total capital that ensure sufficient capital is maintained to:
- meet minimum prudential requirements imposed by regulators;
- ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- support the internal risk capital requirements of the business.

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

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

REGULATORY ENVIRONMENT

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

	Regulatory capital definition	Minimum capital ratios
Common Equity Tier 1 (CET1) capital	Comprises ordinary share capital, retained earnings, and certain accounting reserves. Some amounts (e.g. the value of goodwill) must be deducted to determine the final value of CET1 capital.	CET1 capital divided by total risk weighted assets must be at least 4.5%.
Tier 1 capital	CET1 capital plus additional tier 1 instruments, which comprise high-quality capital and must: • provide a permanent and unrestricted commitment of funds; • be freely available to absorb losses; and provide for fully discretionary capital distributions.	Tier 1 capital divided by total risk weighted assets must be at least 6.0%.
Total capital	Tier 1 plus Tier 2 capital. Tier 2 instruments include some subordinated instruments and accounting reserves that are not included in Tier 1 capital. Some amounts are deducted in determining the value of Tier 2 instruments.	Total capital divided by total risk weighted assets must be at least 8.0%.
Capital buffer	The Capital buffer is actual CET1 capital in excess of any of the minimum capital requirements imposed on the Bank.	Capital buffer divided by total risk weighted assets should be at least 2.5%.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. CAPITAL MANAGEMENT (continued)

CAPITAL ADEQUACY

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

Unaudited	2020 NZ$m	2019 NZ$m
Qualifying capital		
Tier 1		
Shareholder's equity	15,869	14,430
Preference shares included in Additional Tier 1 capital	(300)	(300)
Gross Common Equity Tier 1 capital	15,569	14,130
Deductions	(3,637)	(3,684)
Common Equity Tier 1 capital	11,932	10,446
Additional tier 1 capital	2,750	2,780
Tier 1 capital	14,682	13,226
Tier 2 capital	-	-
Total capital	14,682	13,226
Capital adequacy ratios		
Common Equity Tier 1	11.7%	10.8%
Tier 1	14.4%	13.6%
Total	14.4%	13.6%
Buffer ratio	6.4%	5.6%
Risk weighted assets	102,290	97,070

23. CONTROLLED ENTITIES

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

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

1 The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in Note 24 Structured Entities.

Changes in controlled entities

UDC was sold to Shinsei Bank on 1 September 2020 (refer to Note 26 Divestments).

Arawata Finance Limited and Karapiro Investments Limited amalgamated with the Bank on 30 September 2020.

RECOGNITION AND MEASUREMENT

The Banking Group subsidiaries are those entities it controls through:

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

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

24. STRUCTURED ENTITIES

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

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

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

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

Type	Details
Securitisation	The Banking Group uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle we created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible'). The Banking Group is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated. As at 30 September 2020 and 30 September 2019, the Banking Group had not entered into any repurchase agreements with RBNZ for residential mortgage backed securities issued and therefore no collateral had been accepted by RBNZ under this facility. Additionally, the Banking Group may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.
ANZNZ Covered Bond Trust (the Covered Bond Trust)	Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied. The Banking Group is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.
Structured finance arrangements	The Banking Group is involved with SEs established: • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. The Banking Group may provide risk management products (derivatives) to the SE. In all instances, the Banking Group does not control these SEs. Further, the Banking Group's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.
Funds management activities	The Banking Group is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme. These MIS are financed through the issue of units to investors and the Banking Group considers them to be SEs. The Banking Group's interests in these MIS are limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures to the MIS that would allow the Banking Group to control the funds. Therefore, these MIS are not consolidated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or other support provided to Consolidated Structured Entities

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2019: nil).

UNCONSOLIDATED STRUCTURED ENTITIES

The Banking Group's interest in Unconsolidated Structured Entities

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

For the purpose of disclosing interests in unconsolidated SEs:

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

The Banking Group earned funds management fees from its MIS of NZ$197 million (2019: NZ$198 million) during the year. As at 30 September 2020, the Banking Group had total funds under management of NZ$35.2 billion (2019: NZ$34.1 billion) of which NZ$21.2 billion (2019: NZ$20.6 billion) related to its MIS, with the largest individual fund being approximately NZ$3.5 billion (2019: NZ$3.3 billion).

The Banking Group did not provide any non-contractual support to unconsolidated SEs during the year (2019: nil): nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

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

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

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

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

KEY JUDGEMENTS AND ESTIMATES

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

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

25. TRANSFERS OF FINANCIAL ASSETS

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

Covered bonds

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

Repurchase agreements

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

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

	Covered bonds		Repurchase agreements	
	2020 NZ$m	2019 NZ$m	2020 NZ$m	2019 NZ$m
Current carrying amount of assets transferred	**11,474**	11,600	**650**	203
Carrying amount of associated liabilities	**4,522**	4,460	**646**	203

26. DIVESTMENTS

2020 - UDC

On 1 September 2020, the Banking Group sold UDC to Shinsei Bank. The Banking Group recognised a net loss on sale of NZ$32 million, which is included in other operating income. This net loss comprised a gain on sale of the net assets of UDC of NZ$94 million less an allocation of goodwill from the Commercial segment of NZ$126 million.

2019 - OnePath and Paymark

On 30 November 2018, the Banking Group sold OnePath to Cigna Corporation and on 11 January 2019, the Banking Group sold its 25% shareholding in Paymark to Ingenico Group. The Banking Group recognised net gains on sale of NZ$66 million and NZ$39 million respectively, which are included in other operating income.

Assets and liabilities sold

	UDC 2020 NZ$m	OnePath 2019 NZ$m	Paymark 2019 NZ$m
Net loans and advances	**3,286**	-	-
Life insurance contract assets	**-**	675	-
Investments in associates	**-**	-	7
Deferred tax assets	**21**	-	-
Goodwill and other intangible assets	**-**	101	-
Investments backing insurance contract liabilities	**-**	101	-
Premises and equipment	**10**	-	-
Other assets	**7**	9	-
Total external assets	**3,324**	886	7
Current tax liabilities	**-**	18	-
Deferred tax liabilities	**-**	178	-
Payables and other liabilities	**11**	146	-
Provisions, including employee entitlements	**10**	2	-
Total external liabilities	**21**	344	-
Deposits with the Bank	**221**	50	-
Funding provided by, and other amounts payable to, the Bank	**(2,990)**	(3)	-
Net amounts receivable from / (payable to) the Bank	**(2,769)**	47	-
Net assets of the divested entities	**534**	589	7
Additional goodwill allocated to sale	**126**	-	-
Net assets sold	**660**	589	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. RELATED PARTY DISCLOSURES

Key management personnel and their related parties

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

Key management personnel compensation[1]	2020 NZ$000	2019 NZ$000
Salaries and short-term employee benefits	10,449	10,827
Post-employment benefits	256	297
Other long-term benefits[2]	107	39
Termination benefits[3]	1,155	2,233
Share-based payments	2,679	2,242
Total	14,646	15,638

1 Includes former disclosed KMPs until the end of their employment.
2 Comprises long service leave accrued during the year.
3 Includes payments for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation.

Transactions and balances with key management personnel and their related parties[1]	2020 NZ$m	2019 NZ$m
Secured loans and advances	22	23
Credit related commitments (undrawn loan facilities)	3	5
Interest income	1	1
Customer deposits[2]	17	14
Payables and other liabilities (share-based payments liability)	2	2

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

Loans made to KMP and their related parties are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. No amounts have been written off or forgiven, or individually assessed allowances for expected credit losses raised in respect of these balances (2019: nil).

All other transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services. In addition to the amounts above:

- Aggregate amounts for each of unsecured loans and advances, interest expense, fee income, insurance premium income, debt issuances and collectively assessed credit impairment charge and allowance for expected credit losses were less than NZ$1 million for both years presented.
- KMP and their related parties also hold units in MIS managed by the Banking Group. Transactions and balances in respect of these, MIS holdings are not disclosed because those MIS are unconsolidated structured entities and not included in the financial statements of the Banking Group.
- A close family member of a member of KMP is an employee of the Banking Group and received total compensation of NZ$0.1 million (2019: NZ$0.1 million).
- Some KMP pay the Banking Group for the use of carparks in premises owned or leased by the Banking Group. These amounts were less than NZ$0.1 million (2019: less than NZ$0.1 million).

Transactions with other members of the Overseas Banking Group and associates

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

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

27. RELATED PARTY DISCLOSURES (continued)

Transactions	2020 NZ$m	2019 NZ$m
Immediate Parent Company		
Dividends paid	9	411
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Interest income	13	19
Interest expense	115	135
Fee income	1	4
Other operating income	18	24
Operating expenses	97	60
Mortgages repurchased from the NZ Branch	371	1,098
Associates		
Direct fee expense	-	4
Dividends received	-	3
Share of associates' profit	-	4

Outstanding balances	2020 NZ$m	2019 NZ$m
Immediate Parent Company		
Derivative financial instruments	3	-
Ultimate Parent Bank and other subsidiaries not part of the Banking Group		
Cash and cash equivalents	166	79
Collateral paid	-	810
Derivative financial instruments	2,849	3,933
Other assets	48	58
Total due from related parties	3,066	4,880
Immediate Parent Company		
Deposits and other borrowings	11	33
Derivative financial instruments	-	4
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances payable	85	66
Deposits and other borrowings	173	11
Derivative financial instruments	2,877	4,777
Payables and other liabilities	31	24
Debt issuances	1,972	1,956
Associates		
Deposits and other borrowings	1	1
Post-employment benefit plans for the benefit of employees of the Banking Group		
Deposits and other borrowings	-	2
Total due to related parties	5,150	6,874

Balances due from / to other members of the Overseas Banking Group and associates are unsecured. The Bank has provided guarantees and commitments to, and received guarantees from, these entities as follows. For the year ended 30 September 2019, fees associated with the provision of financial guarantees to/by the Ultimate Parent Bank may be lower than those for similar transactions with unrelated parties.

	2020 NZ$m	2019 NZ$m
Financial guarantees provided by the Ultimate Parent Bank	264	456
Financial guarantees provided to the Ultimate Parent Bank	123	114
Undrawn credit commitments provided to the Immediate Parent Company	250	250
Undrawn credit commitments provided to associates	1	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. COMMITMENTS AND CONTINGENT LIABILITIES

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2020 NZ$m	2019 NZ$m
Contract amount of:		
Undrawn facilities	**28,273**	26,600
Guarantees and letters of credit	**1,309**	1,248
Performance related contingencies	**1,434**	1,502
Total	**31,016**	29,350

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total undrawn facilities of NZ$28,273 million (2019: NZ$26,600 million) mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

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

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

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

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which the Banking Group may be required to pay, the total guarantees and letters of credit of NZ$1,309 million (2019: NZ$1,248 million) and total performance related contingencies of NZ$1,434 million (2019: NZ$1,502 million) mature within 12 months.

PROPERTY RELATED COMMITMENTS

	2020 NZ$m	2019 NZ$m
Property capital expenditure		
Contracts for outstanding capital expenditure (not later than 1 year)	**11**	6
Total capital expenditure commitments for property	**11**	6
Lease rentals		
Land and Buildings[1]	**-**	279
Furniture and equipment	**5**	7
Motor vehicles	**5**	6
Total lease rental commitments	**10**	292
Due within 1 year	**3**	53
Due later than 1 year but not later than 5 years	**7**	148
Due later than 5 years	**-**	91
Total lease rental commitments	**10**	292

[1] Lease commitments for land and buildings are recognised on the balance sheet following the application of NZ IFRS 16 from 1 October 2019. Refer to Note 1 for further details.

28. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

OTHER CONTINGENT LIABILITIES

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

Regulatory and customer exposures

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

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. These payments are nearing completion.

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, the 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. Due to the impacts of the COVID-19 pandemic, in May 2020, the RBNZ agreed to extend the time period for addressing the directors' attestation recommendations, subject to the Bank obtaining an external interim review, assessed as at March 2021, with a final review of the Bank's directors' attestation and assurance framework being assessed as at September 2021.
- 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. In May 2020, a detailed remediation plan, which includes key dates on model submissions, was submitted to the RBNZ. The Bank also submitted the first tranche of model documentation to RBNZ in August 2020, a key milestone in the section 95 models remediation. In October 2020, the RBNZ notified the Bank that it should obtain an external interim review of certain remediation activities relating to the report on capital adequacy requirements, assessed as at March 2021, with a final review of those activities being assessed as at September 2021 (to reflect the close relationship between these improvements and those being undertaken for directors' attestation and assurance).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. COMPENSATION OF AUDITORS

	2020 NZ$000	2019 NZ$000
KPMG New Zealand		
Audit or review of financial statements[1]	1,953	1,852
Audit related services:		
Prudential and regulatory services[2]	308	1,418
Offer documents assurance or review	94	111
Other assurance services[3,4]	116	25
Total audit related services	518	1,554
Total compensation of auditors relating to the Banking Group	2,471	3,406
Fees related to certain managed funds not recharged[4]	93	70
Total compensation of auditors	2,564	3,476

1 Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.
2 Includes fees for reviews and controls reports required by regulations.
3 Includes fees for other reviews and agreed upon procedures engagements. Comparative information has been restated to reclassify certain fees relating to managed funds and not recharged to those funds.
4 Amounts relate to the ANZ PIE Fund and certain other funds, and include fees for audits of annual financial statements, registry audits, supervisor reporting and other agreed upon procedures engagements. Comparative information has been restated to reclassify certain fees previously included in other assurance services.

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

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REGISTERED BANK DISCLOSURES

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

Section		Order reference	Page
B1.	General disclosures	Schedule 2	73
B2.	Additional financial disclosures	Schedule 4	85
B3.	Asset quality	Schedule 7	86
B4.	Capital adequacy under the internal models based approach, and regulatory liquidity ratios	Schedule 11	95
B5.	Concentration of credit exposures to individual counterparties	Schedule 13	100
B6.	Credit exposures to connected parties	Schedule 14	101
B7.	Insurance business, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products	Schedule 15	102
B8.	Risk management policies	Schedule 17	104

B1. GENERAL DISCLOSURES (UNAUDITED)

Details of ultimate parent bank and ultimate holding company

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

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

Effect of APRA's Prudential Standards

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

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

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

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

In August 2019, APRA announced that it will amend APS222 to reduce the limits for Australian ADIs' individual entity exposure to related ADIs (or overseas equivalents) from 50% of Level 1 total capital to 25% of Level 1 Tier 1 capital, and aggregate exposures from 150% of Level 1 total capital to 75% of Level 1 Tier 1 capital. As exposures are measured net of capital deductions, the proposed changes to APRA's capital regulations (contained in APS111 – as defined below) will affect the measurement of ADI exposures. The implementation date for these changes has been deferred by APRA to 1 January 2022 (12 month deferral from initial implementation date of 1 January 2021).

In October 2019, APRA released a discussion paper on draft revisions to the prudential standard APS111 *Capital Adequacy: Measurement of Capital* (APS111) for consultation. The most material change arising from APRA's proposal is in relation to the treatment of capital investments for each banking and insurance subsidiary at Level 1, with the tangible component of the investment changing from a 400% risk weighting to:

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

In November 2020, APRA further announced, that until the new APS111 is finalised and implemented, APRA will require any new or additional equity investments in banking and insurance subsidiaries, where the amount of that new or additional investments takes the aggregate value of the investment above 10 per cent of an ADI's CET1 capital, to be fully funded by equity capital at the ADI parent company level. This treatment would apply to the proportion of the new or additional investment that is above 10 per cent of an ADI's CET1 capital.

The Ultimate Parent Bank continues to review the implications for its current investments. The net impact on the Overseas Banking Group is unclear and will depend upon a number of factors including the capitalisation of the affected subsidiaries at the time of implementation, the final form of the prudential standard, as well as the effect of management actions being pursued that have the potential to materially offset the impact of these proposals. Based on the Ultimate Parent Bank's current investment as at 30 September 2020 in its affected subsidiaries and in the absence of any offsetting management actions, the above proposals imply a reduction in the Ultimate Parent Bank's Level 1 CET1 capital of up to approximately AUD 2.5 billion (~70 basis points). There would be no impact on the Overseas Banking Group's Level 2 CET1 capital ratio arising from these proposed changes. The proposed implementation date of 1 January 2021 for these changes is currently under review by APRA and is expected to be delayed to 1 January 2022. In addition, APRA has confirmed that by 1 January 2021, no more than 5% of the Ultimate Parent Bank's Level 1 Tier 1 capital base can comprise non-equity exposures to its New Zealand operations (including its subsidiaries incorporated in New Zealand, such as the Banking Group and the New Zealand Branch) during ordinary times. This limit does not include holdings of capital instruments or eligible secured contingent funding support provided to the Bank during times of financial stress.

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

Effect of the Level 3 framework

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

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

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Other APRA powers

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

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

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

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

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

Priority of creditors' claims

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

Guarantees

The Bank has guaranteed the payment of interest and principal of covered bonds issued by its subsidiary ANZ New Zealand (Int'l) Limited. This obligation is guaranteed by ANZNZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations. The covered bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Refer to page 35 for further details, and to page 53 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 17 November 2020.

Auditors

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

Directors

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

Transactions with Directors

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

Board Audit Committee

There is a Board Audit Committee which covers audit matters. The committee has six members. Each member is a non-executive Director, the majority of whom satisfy the criteria for independence.

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

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

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

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

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

			
	Rt Hon Sir John Key, GNZM AC	**Antonia Watson**	**Antony Carter, CNZM**
Position	Independent Non-Executive Director and Chair	Chief Executive Officer and Director	Independent Non-Executive Director
Occupation	Company Director	Chief Executive Officer New Zealand and Group Executive	Company Director
Qualifications	BCom, DCom (Honoris Causa)	BCom (Hons), GAICD	BE (Hons), ME, MPhil, CFInstD, FNZIM
Resides	Auckland, New Zealand	Auckland, New Zealand	Auckland, New Zealand
Other company directorships	Australia and New Zealand Banking Group Ltd, Dairy Investment Fund Ltd, Kyro Capital Ltd, Palo Alto Networks Inc, Sashimi Holdings Ltd, Thirty Eight JK Ltd	ANZ Holdings (New Zealand) Ltd, Mehek Holdings Ltd	Avonhead Mall Ltd, Datacom Group Ltd, Loughborough Investments Ltd, Modern Merchants Ltd, Strategic Interchange Ltd, Tetrad Corporation Ltd, T R Group Ltd, Vector Ltd

			
	Shayne Elliott	**Alison Gerry**	**Michelle Jablko**
Position	Non-Executive Director	Independent Non-Executive Director	Non-Executive Director
Occupation	Chief Executive Officer, Australia and New Zealand Banking Group Ltd	Company Director	Chief Financial Officer, Australia and New Zealand Banking Group Ltd
Qualifications	BCom	BMS (Hons), MAppFin, CFInstD	LLB (Hons), B.Ec (Hons)
Resides	Melbourne, Australia	Queenstown, New Zealand	Melbourne, Australia
Other company directorships	Australia and New Zealand Banking Group Ltd, Financial Markets Foundation for Children	Asteron Life Ltd, Glendora Avocados Ltd, Glendora Holdings Ltd, Infratil Ltd, On Being Bold Ltd, Sharesies Ltd, Sharesies Group Ltd, Sharesies Nominee Ltd, Vero Insurance New Zealand Ltd, Vero Liability Insurance Ltd, Wellington International Airport Ltd	ANZ Holdings (New Zealand) Ltd, Bialik College Ltd

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Conditions of registration

The following conditions of registration were applicable as at 30 September 2020, and have applied from 1 May 2020.

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

1. That—

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

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

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

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

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

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

For the purposes of this condition of registration, —

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

(a) the greater of:

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

ii. zero;

and

(b) the greater of:

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

ii. zero;

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

"corporate farm lending exposures" has the same meaning as in 4.4(c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 and elsewhere in this condition of registration is 1.06;

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

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

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

1A. That—

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

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

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

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

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

(b) the compendium requirements in section 1.3B;

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

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

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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

(a) according to the following table, limit any distributions of the bank's earnings payable to holders of Additional Tier 1 capital instruments to the percentage limit on distributions that corresponds to the banking group's buffer ratio:

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

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

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

For the purposes of this condition of registration,—

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

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

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

1D. That the bank must make no distributions, whether paid out of earnings, or out of accumulated previous years' retained earnings or other reserves included within the banking group's total capital, other than discretionary payments payable to holders of Additional Tier 1 capital instruments to the extent permitted by condition 1C.

For the purposes of this condition of registration,—

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

"total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

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

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,—

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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

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

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

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

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

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

6. That the bank complies with the following corporate governance requirements:

   (a) the board of the bank must have at least five directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director,—

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the bank must be independent; and

   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

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

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;

   (b) the committee must have at least three members;

   (c) every member of the committee must be a non-executive director of the bank;

   (d) the majority of the members of the committee must be independent; and

   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

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

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

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

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

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

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

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

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

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

    For the purposes of this condition of registration:

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

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

12. That:

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

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

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

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

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

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

    (c) the one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

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

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

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

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

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

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

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

    For the purposes of this condition,—

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

    "SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a *de minimis* to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

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

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

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

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

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

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

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

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

In these conditions of registration,—

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

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

Changes since 31 March 2020

Effective 2 April 2020, the Bank's conditions of registration were 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 were amended to remove restrictions on high loan-to-valuation residential mortgage lending.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Non-compliance with conditions of registration

a) Condition of Registration 1B – non-compliance with BS2B

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

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

Applying the last RBNZ approved methodologies to the affected exposures as at 30 September 2019 would have decreased Risk Weighted Assets (RWA) by NZ$47 million (0.05%) in aggregate, which was not sufficient to affect the reported capital ratios.

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

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

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

The first tranche of remediated models was submitted to RBNZ for approval in August 2020, and the second tranche was submitted in November 2020. Remediation of the remaining models is expected to be submitted to RBNZ in 2021.

Further to the above, in May 2020 the Bank identified that its approach to enhancing wholesale risk grades in the presence of a guarantee was not compliant with BS2B. The estimated impact as at 31 March 2020 was an understatement of RWA of NZ$26 million (0.03%), which is not sufficient to affect the reported capital ratios. The Bank has updated the calculation of RWA as at 30 September 2020 in line with the approach agreed with RBNZ.

b) Condition of Registration 1B – historical non-compliance with BS2B

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 was an understatement of RWA of NZ$383 million (0.38%), and an overstatement of the Banking Group's capital ratios of 0.05%. This issue was corrected for the calculation of RWA from 30 April 2020, and did not result in non-compliance with the Bank's conditions of registration over the year ended 30 September 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.

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

As first 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. The Bank has also retrospectively applied the revised pricing methodology to all such transactions, including those where the Bank has provided a similar counter-guarantee or standby letter of credit to the Ultimate Parent Bank, that were active during the year ended 30 September 2020, resulting in additional net income of less than NZ$1 million.

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

The following were reported as matters of non-compliance with BS13 in the disclosure statement for the year ended 30 September 2019. These matters were not sufficient to affect the reported liquidity ratios.

- 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. Processes have been updated with effect from 31 January 2020 to ensure the calculations comply with BS13.
- Since 2010, the Bank has 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. The Bank has sought further guidance from the RBNZ on this matter (refer to *f)* below) as the appropriate process is a matter of interpretation of BS13.

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

e) Condition of Registration 21 – Outsourcing (BS11 updated April 2020)

BS11 requires the Bank to have a compendium of information about outsourcing arrangements.

- During the year ended 30 September 2020, the Bank identified the following instances of data discrepancies in relation to the compendium: 146 data errors; 10 arrangements not entered into the compendium within 20 working days; and 12 instances of incomplete information recorded against arrangements in the compendium. The matters were assessed by the RBNZ as relatively minor and were all corrected during the year ended 30 September 2020. As at the date of last issue to the RBNZ (14 September 2020), the Bank's Condition of Registration 21 compendium contained 132 remediated arrangements with a total of 2,112 data fields.
- In August 2020, the RBNZ notified the Bank that omitting upfront costs in certain entries in the Bank's 2019 compendium without formal dispensation was a relatively minor breach of BS11. Upfront costs were included in the Bank's updated compendium submitted to the RBNZ in September 2020.

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.
- During the year ended 30 September 2020, the Bank outsourced one arrangement to the Overseas Banking Group without the required prescribed contractual terms. This arrangement was remediated in June 2020.

f) Other matters relating to potential non-compliance with the conditions of registration

There are several matters under review, including the calculation of the liquidity ratios (under BS13 and BS13A), and the measurement of security indicators for commercial customers with home loans (under BS2B, but not considered to affect compliance with the current conditions of registration), where there may be more than one interpretation of the respective policy wording or requirement. Where there may be some uncertainty about the interpretation the Bank has applied, where appropriate, it has sought 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 to support credit availability, with further delays possible if the conditions warrant it. The new regime is expected to be implemented in stages from 1 July 2021.

- The Banking Group's total capital requirement will increase to 18% of RWA, including tier 1 capital of at least 16% of RWA. Up to 2.5% of the tier 1 capital requirement can be made up of additional tier 1 (AT1) capital, with the remainder of the tier 1 requirement made up of common equity tier 1 (CET1) capital. The increased capital ratios requirement will be implemented progressively from 1 July 2022 to 1 July 2028. AT1 capital must consist of perpetual preference shares, which may be redeemable. The total capital requirement can also include tier 2 capital of up to 2% of RWA. Tier 2 capital must consist of long-term subordinated debt.
- The tier 1 capital requirement will include a CET1 prudential capital buffer of 9% of RWA. This will include: a 2% domestic, systemically important bank capital buffer; a 1.5% 'early-set' counter-cyclical capital buffer, which can be temporarily reduced to 0% following a financial crisis, or temporarily increased to prevent asset price bubbles from developing; and a 5.5% capital conservation buffer.
- Contingent capital instruments will no longer be treated as eligible regulatory capital. As at 30 September 2020, the Bank had approximately NZ$2,741 million of AT1 instruments that will progressively lose eligible regulatory capital treatment over a seven year transition period from 1 July 2021 to 1 July 2028.
- As an internal ratings based approach accredited bank, the Banking Group's RWA outcomes will be increased to approximately 90% of what would be calculated under the standardised approach. This will be achieved by applying an 85% output floor from 1 January 2022, and increasing the credit RWA scalar from 1.06 to 1.20 from 1 October 2022.
- The Banking Group will be required to report RWA, and resulting capital ratios, using both the internal models and the standardised approaches from 1 January 2022.

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

The Banking Group has started preparing for the changes. Since 30 September 2018, CET1 capital has increased by NZ$2.9 billion to NZ$11.9 billion at 30 September 2020 and total capital has increased by NZ$2.8 billion to NZ$14.7 billion.

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Credit rating

As at 17 November 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. On 9 July 2019, S&P Global Ratings changed the outlook on the Bank from Negative to Stable. On 17 July 2019, Fitch Ratings changed the outlook on the Bank from Stable to Negative. On 7 April 2020, Fitch Ratings changed the rating on the Bank from AA- to A+ and S&P Global Ratings changed the outlook on the Bank from Stable to Negative.

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

The following table describes the credit rating grades available:

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

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

REGISTERED BANK DISCLOSURES

B1. GENERAL DISCLOSURES (UNAUDITED) (continued)

Historical summary of financial statements

Income statement

For the year ended 30 September	2020 NZ$m	2019 NZ$m	2018 NZ$m	2017 NZ$m	2016 NZ$m
Interest income	5,568	6,423	6,390	6,198	6,423
Interest expense	(2,306)	(3,179)	(3,240)	(3,161)	(3,421)
Net interest income	3,262	3,244	3,150	3,037	3,002
Non-interest income	807	946	1,126	938	852
Operating income	4,069	4,190	4,276	3,975	3,854
Operating expenses	(1,752)	(1,608)	(1,517)	(1,468)	(1,599)
Credit impairment charge	(403)	(101)	(55)	(62)	(150)
Profit before income tax	1,914	2,481	2,704	2,445	2,105
Income tax expense	(541)	(662)	(751)	(680)	(570)
Profit after income tax	1,373	1,819	1,953	1,765	1,535

Balance sheet

As at 30 September	2020 NZ$m	2019 NZ$m	2018 NZ$m	2017 NZ$m	2016 NZ$m
Total assets	179,744	169,416	159,012	153,973	160,819
Total individually impaired assets	361	285	321	357	426
Total impaired assets (i.e. Stage 3)	1,169	729	n/a	n/a	n/a
Total liabilities	163,875	154,986	145,903	141,192	148,109
Equity	15,869	14,430	13,109	12,781	12,710
Other items included in Equity					
Dividends paid	(9)	(411)	(4,611)	(1,695)	(1,363)
Share capital issued	-	-	3,000	-	-

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

Pending proceedings or arbitration

A description of any pending legal proceedings or arbitration concerning any member of the Banking Group that may have a material adverse effect on the Bank or the Banking Group is included in Note 28 Commitments and Contingent Liabilities.

B2. ADDITIONAL FINANCIAL DISCLOSURES

Additional information on the balance sheet

	2020 NZ$m	2019 NZ$m
Total interest earning and discount bearing assets	165,332	153,298
Total interest and discount bearing liabilities	136,036	129,494

Additional information on interest rate sensitivity

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

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	8,248	7,973	-	-	-	-	275
Settlement balances receivable	378	-	-	-	-	-	378
Collateral paid	1,394	1,394	-	-	-	-	-
Trading securities	12,797	2,957	663	949	394	7,834	-
Derivative financial instruments	9,702	-	-	-	-	-	9,702
Investment securities	9,893	801	213	363	734	7,781	1
Net loans and advances	132,698	59,322	11,187	38,972	20,563	3,232	(578)
Other financial assets	547	-	-	-	-	-	547
Total financial assets	175,657	72,447	12,063	40,284	21,691	18,847	10,325
Liabilities							
Settlement balances payable	2,950	1,689	-	-	-	-	1,261
Collateral received	1,275	1,275	-	-	-	-	-
Deposits and other borrowings	125,061	79,775	14,420	10,342	2,366	1,274	16,884
Derivative financial instruments	8,252	-	-	-	-	-	8,252
Debt issuances	24,439	3,482	2,846	2,409	3,566	12,136	-
Lease liabilities	298	12	12	21	85	168	-
Other financial liabilities	539	158	-	-	-	-	381
Total financial liabilities	162,814	86,391	17,278	12,772	6,017	13,578	26,778
Hedging instruments	-	12,454	(16,749)	(16,220)	14,946	5,569	-
Interest sensitivity gap	12,843	(1,490)	(21,964)	11,292	30,620	10,838	(16,453)

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

Reconciliation of mortgage related amounts

As at 30 September 2020	Note	NZ$m
Term loans - housing[1]	11	89,258
Less: fair value hedging adjustment		(10)
Less: housing loans made to corporate customers		(1,798)
Add: unsettled re-purchases of mortgages from the NZ Branch		2
On-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	87,452
Add: off-balance sheet residential mortgage exposures subject to the IRB approach (per asset quality and LVR analysis)	B3, B4	8,866
Total residential mortgage exposures subject to the IRB approach (per LVR analysis)	B4	**96,318**

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

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY

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	25	(30)	4	1	-
New and increased provisions (net of collective provision releases)	(2)	206	34	157	395
Write-backs	-	-	-	(34)	(34)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	23	176	38	101	338
Bad debts written-off (excluding recoveries)	-	-	-	(92)	(92)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(9)	(9)
Sale of UDC (refer to Note 26 Divestments)	(25)	(23)	(1)	(14)	(63)
As at 30 September 2020	162	347	79	106	694
Off-balance sheet credit related commitments - total					
As at 1 October 2019	60	24	2	11	97
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	17	36	1	11	65
Credit impairment charge	20	33	1	11	65
Sale of UDC (refer to Note 26 Divestments)	(1)	(2)	-	-	(3)
As at 30 September 2020	79	55	3	22	159

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

Gross loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	123,285	9,008	444	285	133,022
Net transfers in to each stage	12	4,503	472	210	5,197
Amounts drawn from new or existing facilities	34,287	1,375	120	191	35,973
Additions	34,299	5,878	592	401	41,170
Net transfers out of each stage	(5,152)	(45)	-	-	(5,197)
Amounts repaid	(29,444)	(2,574)	(225)	(212)	(32,455)
Deletions	(34,596)	(2,619)	(225)	(212)	(37,652)
Amounts written off	-	-	-	(92)	(92)
Sale of UDC (refer to Note 26 Divestments)	(2,878)	(447)	(3)	(21)	(3,349)
As at 30 September 2020	120,110	11,820	808	361	133,099
Loss allowance as at 30 September 2020	162	347	79	106	694
Off-balance sheet credit related commitments - total					
As at 1 October 2019	28,491	837	3	19	29,350
Net transfers in to each stage	3	387	7	7	404
New and increased facilities and drawn amounts repaid	9,272	600	16	25	9,913
Additions	9,275	987	23	32	10,317
Net transfers out of each stage	(398)	(6)	-	-	(404)
Reduced facilities and amounts drawn	(7,489)	(198)	(7)	(10)	(7,704)
Deletions	(7,887)	(204)	(7)	(10)	(8,108)
Sale of UDC (refer to Note 26 Divestments)	(378)	(165)	-	-	(543)
As at 30 September 2020	29,501	1,455	19	41	31,016
Loss allowance as at 30 September 2020	79	55	3	22	159

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

Overall, loss allowances are 0.5% of gross balances as at 30 September 2020, up from 0.4% as at 30 September 2019. The NZ$259 million (43.6%) increase in loss allowances was driven by an increase in the proportion of gross balances in Stage 2 and Stage 3, and changes in the forward looking economic scenarios and changes in probability weightings as described in Note 12 to the financial statements.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – total

Net loans and advances - total	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	160	171	40	130	501
Transfer between stages	29	(40)	3	8	-
New and increased provisions (net of collective provision releases)	(25)	63	(1)	121	158
Write-backs	-	-	-	(48)	(48)
Recoveries of amounts previously written off	-	-	-	(23)	(23)
Credit impairment charge	4	23	2	58	87
Bad debts written-off (excluding recoveries)	-	-	-	(106)	(106)
Add back recoveries of amounts previously written off	-	-	-	23	23
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	164	194	42	97	497
Off-balance sheet credit related commitments - total					
As at 1 October 2018	59	22	2	-	83
Transfer between stages	5	(5)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	7	-	11	14
Credit impairment charge	1	2	-	11	14
As at 30 September 2019	60	24	2	11	97

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 2018	118,878	7,448	331	321	126,978
Net transfers in to each stage	-	1,979	206	203	2,388
Amounts drawn from new or existing facilities	21,123	687	35	105	21,950
Additions	21,123	2,666	241	308	24,338
Net transfers out of each stage	(2,372)	-	-	(16)	(2,388)
Amounts repaid	(14,344)	(1,106)	(128)	(222)	(15,800)
Deletions	(16,716)	(1,106)	(128)	(238)	(18,188)
Amounts written off	-	-	-	(106)	(106)
As at 30 September 2019	123,285	9,008	444	285	133,022
Loss allowance as at 30 September 2019	164	194	42	97	497
Off-balance sheet credit related commitments - total					
As at 1 October 2018	28,882	1,198	11	14	30,105
Net transfers in to each stage	38	29	4	14	85
New and increased facilities and drawn amounts repaid	3,896	78	1	-	3,975
Additions	3,934	107	5	14	4,060
Net transfers out of each stage	(31)	(45)	-	(9)	(85)
Reduced facilities and amounts drawn	(4,294)	(423)	(13)	-	(4,730)
Deletions	(4,325)	(468)	(13)	(9)	(4,815)
Amounts written off	-	-	-	-	-
As at 30 September 2019	28,491	837	3	19	29,350
Loss allowance as at 30 September 2019	60	24	2	11	97

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

Overall, loss allowances on gross loans and advances have remained stable at approximately 0.4% of gross loans and advances. Loss allowances have increased by NZ$10 million (2%) driven by an increase in the proportion of gross loans and advances in Stage 2 and Stage 3, offset by a net decrease in Stage 3 individually assessed exposures as a result of amounts written-off.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

Net loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	18	25	12	22	77
Transfer between stages	6	(7)	1	-	-
New and increased provisions (net of collective provision releases)	(4)	14	16	7	33
Write-backs	-	-	-	(4)	(4)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge	2	7	17	3	29
Bad debts written-off (excluding recoveries)	-	-	-	(1)	(1)
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	(2)	(2)
As at 30 September 2020	20	32	29	22	103

Off-balance sheet credit related commitments - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2020	-	-	-	-	-

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

Gross loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	79,128	2,475	273	25	81,901
Net transfers in to each stage	-	3,553	272	10	3,835
Amounts drawn from new or existing facilities	23,077	545	59	22	23,703
Additions	23,077	4,098	331	32	27,538
Net transfers out of each stage	(3,835)	-	-	-	(3,835)
Amounts repaid	(17,313)	(714)	(92)	(32)	(18,151)
Deletions	(21,148)	(714)	(92)	(32)	(21,986)
Amounts written off	-	-	-	(1)	(1)
As at 30 September 2020	81,057	5,859	512	24	87,452
Loss allowance as at 30 September 2020	20	32	29	22	103

Off-balance sheet credit related commitments - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	8,232	36	-	-	8,268
Net transfers in to each stage	-	25	-	-	25
New and increased facilities and drawn amounts repaid	1,937	23	-	-	1,960
Additions	1,937	48	-	-	1,985
Net transfers out of each stage	(25)	-	-	-	(25)
Reduced facilities and amounts drawn	(1,351)	(11)	-	-	(1,362)
Deletions	(1,376)	(11)	-	-	(1,387)
Amounts written off	-	-	-	-	-
As at 30 September 2020	8,793	73	-	-	8,866
Loss allowance as at 30 September 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$26 million (33.8%) 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 12 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 97).

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – residential mortgages

Net loans and advances - residential mortgages	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	13	26	7	21	67
Transfer between stages	11	(10)	-	(1)	-
New and increased provisions (net of collective provision releases)	(6)	9	5	7	15
Write-backs	-	-	-	(5)	(5)
Recoveries of amounts previously written off	-	-	-	-	-
Credit impairment charge / (release)	5	(1)	5	1	10
Bad debts written-off (excluding recoveries)	-	-	-	-	-
Add back recoveries of amounts previously written off	-	-	-	-	-
Discount unwind	-	-	-	-	-
As at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2018	-	-	-	-	-
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	-	-	-	-	-
Credit impairment charge	-	-	-	-	-
As at 30 September 2019	-	-	-	-	-

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

Gross loans and advances - residential mortgages					
As at 1 October 2018	73,992	1,948	203	25	76,168
Net transfers in to each stage	-	815	169	25	1,009
Amounts drawn from new or existing facilities	14,769	360	22	6	15,157
Additions	14,769	1,175	191	31	16,166
Net transfers out of each stage	(1,001)	-	-	(8)	(1,009)
Amounts repaid	(8,632)	(648)	(121)	(23)	(9,424)
Deletions	(9,633)	(648)	(121)	(31)	(10,433)
Amounts written off	-	-	-	-	-
As at 30 September 2019	79,128	2,475	273	25	81,901
Loss allowance as at 30 September 2019	18	25	12	22	77

Off-balance sheet credit related commitments - residential mortgages					
As at 1 October 2018	8,206	26	-	-	8,232
Net transfers in to each stage	-	21	-	-	21
New and increased facilities and drawn amounts repaid	1,107	4	-	-	1,111
Additions	1,107	25	-	-	1,132
Net transfers out of each stage	(21)	-	-	-	(21)
Amounts repaid	(1,060)	(15)	-	-	(1,075)
Deletions	(1,081)	(15)	-	-	(1,096)
Reduced facilities and amounts drawn	-	-	-	-	-
As at 30 September 2019	8,232	36	-	-	8,268
Loss allowance as at 30 September 2019	-	-	-	-	-

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

The NZ$10 million (14.9%) increase in loss allowances on residential mortgage exposures is primarily driven by an increase in overall gross carrying amounts, and an increase in the proportion of Stage 2 and Stage 3 collectively assessed exposures. Overall loss allowances and individually impaired exposures remain low, reflecting that approximately 95% of on-balance sheet residential mortgage exposures have loan to valuation ratios not exceeding 80%.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

Net loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	26	51	24	14	115
Transfer between stages	11	(11)	-	-	-
New and increased provisions (net of collective provision releases)	(9)	3	3	71	68
Write-backs	-	-	-	(11)	(11)
Recoveries of amounts previously written off	-	-	-	(18)	(18)
Credit impairment charge / (release)	2	(8)	3	42	39
Bad debts written-off (excluding recoveries)	-	-	-	(60)	(60)
Add back recoveries of amounts previously written off	-	-	-	18	18
Discount unwind	-	-	-	-	-
Sale of UDC (refer to Note 26 Divestments)	(17)	(10)	(1)	(10)	(38)
As at 30 September 2020	11	33	26	4	74
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	1	-	5
Credit impairment charge	2	2	1	-	5
As at 30 September 2020	19	13	3	-	35

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

Gross loans and advances - other retail exposures	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	3,135	305	45	30	3,515
Net transfers in to each stage	12	-	25	18	55
Amounts drawn from new or existing facilities	1,813	28	13	49	1,903
Additions	1,825	28	38	67	1,958
Net transfers out of each stage	(10)	(45)	-	-	(55)
Amounts repaid	(1,904)	(105)	(31)	(12)	(2,052)
Deletions	(1,914)	(150)	(31)	(12)	(2,107)
Amounts written off	-	-	-	(60)	(60)
Sale of UDC (refer to Note 26 Divestments)	(1,655)	(18)	(3)	(14)	(1,690)
As at 30 September 2020	1,391	165	49	11	1,616
Loss allowance as at 30 September 2020	11	33	26	4	74
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2019	4,578	46	3	-	4,627
Net transfers in to each stage	-	-	4	-	4
New and increased facilities and drawn amounts repaid	1,711	16	14	-	1,741
Additions	1,711	16	18	-	1,745
Net transfers out of each stage	(1)	(3)	-	-	(4)
Reduced facilities and amounts drawn	(470)	(12)	(6)	-	(488)
Deletions	(471)	(15)	(6)	-	(492)
As at 30 September 2020	5,818	47	15	-	5,880
Loss allowance as at 30 September 2020	19	13	3	-	35

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

The NZ$36 million (24.8%) decrease in loss allowances is primarily driven by the reduction in other retail exposures due to the sale of UDC.

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – other retail exposures

Net loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	28	55	25	11	119
Transfer between stages	13	(18)	1	4	-
New and increased provisions (net of collective provision releases)	(15)	14	(2)	84	81
Write-backs	-	-	-	(11)	(11)
Recoveries of amounts previously written off	-	-	-	(20)	(20)
Credit impairment charge / (release)	(2)	(4)	(1)	57	50
Bad debts written-off (excluding recoveries)	-	-	-	(74)	(74)
Add back recoveries of amounts previously written off	-	-	-	20	20
Discount unwind	-	-	-	-	-
As at 30 September 2019	26	51	24	14	115
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2018	18	10	2	-	30
Transfer between stages	3	(3)	-	-	-
New and increased provisions (net of collective provision releases)	(4)	4	-	-	-
Credit impairment charge / (release)	(1)	1	-	-	-
As at 30 September 2019	17	11	2	-	30

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

Gross loans and advances - other retail exposures	Stage 1 NZ$m	Stage 2 NZ$m	Stage 3 Collectively assessed NZ$m	Stage 3 Individually assessed NZ$m	Total NZ$m
As at 1 October 2018	3,288	315	48	25	3,676
Net transfers in to each stage	-	-	-	38	38
Amounts drawn from new or existing facilities	472	33	4	69	578
Additions	472	33	4	107	616
Net transfers out of each stage	(32)	-	-	(6)	(38)
Amounts repaid	(593)	(43)	(7)	(22)	(665)
Deletions	(625)	(43)	(7)	(28)	(703)
Amounts written off	-	-	-	(74)	(74)
As at 30 September 2019	3,135	305	45	30	3,515
Loss allowance as at 30 September 2019	26	51	24	14	115
Off-balance sheet credit related commitments - other retail exposures					
As at 1 October 2018	4,859	54	4	-	4,917
Net transfers in to each stage	-	8	2	-	10
New and increased facilities and drawn amounts repaid	312	8	-	-	320
Additions	312	16	2	-	330
Net transfers out of each stage	(10)	-	-	-	(10)
Amounts repaid	(583)	(24)	(3)	-	(610)
Deletions	(593)	(24)	(3)	-	(620)
Reduced facilities and amounts drawn	-	-	-	-	-
As at 30 September 2019	4,578	46	3	-	4,627
Loss allowance as at 30 September 2019	17	11	2	-	30

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

Loss allowances have decreased by NZ$4 million (2.7%) reflecting the reduction in gross carrying amounts, offset by a net increase in Stage 3 individually assessed exposures.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Movements in components of loss allowance – corporate exposures

			Stage 3		
Net loans and advances - corporate exposures	Stage 1 NZ$m	Stage 2 NZ$m	Collectively assessed NZ$m	Individually assessed NZ$m	Total NZ$m
As at 1 October 2019	120	118	6	61	305
Transfer between stages	8	(12)	3	1	-
New and increased provisions (net of collective provision releases)	11	189	15	79	294
Write-backs	-	-	-	(19)	(19)
Recoveries of amounts previously written off	-	-	-	(5)	(5)
Credit impairment charge	19	177	18	56	270
Bad debts written-off (excluding recoveries)	-	-	-	(31)	(31)
Add back recoveries of amounts previously written off	-	-	-	5	5
Discount unwind	-	-	-	(7)	(7)
Sale of UDC (refer to Note 26 Divestments)	(8)	(13)	-	(4)	(25)
As at 30 September 2020	131	282	24	80	517
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2019	43	13	-	11	67
Transfer between stages	-	-	-	-	-
New and increased provisions (net of collective provision releases)	18	31	-	11	60
Credit impairment charge	18	31	-	11	60
Sale of UDC (refer to Note 26 Divestments)	(1)	(2)	-	-	(3)
As at 30 September 2020	60	42	-	22	124

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

Gross loans and advances - corporate exposures	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
Net transfers in to each stage	-	950	175	182	1,307
Amounts drawn from new or existing facilities	9,397	802	48	120	10,367
Additions	9,397	1,752	223	302	11,674
Net transfers out of each stage	(1,307)	-	-	-	(1,307)
Amounts repaid	(10,227)	(1,755)	(102)	(168)	(12,252)
Deletions	(11,534)	(1,755)	(102)	(168)	(13,559)
Amounts written off	-	-	-	(31)	(31)
Sale of UDC (refer to Note 26 Divestments)	(1,223)	(429)	-	(7)	(1,659)
As at 30 September 2020	37,662	5,796	247	326	44,031
Loss allowance as at 30 September 2020	131	282	24	80	517
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2019	15,681	755	-	19	16,455
Net transfers in to each stage	3	362	3	7	375
New and increased facilities and drawn amounts repaid	5,624	561	2	25	6,212
Additions	5,627	923	5	32	6,587
Net transfers out of each stage	(372)	(3)	-	-	(375)
Reduced facilities and amounts drawn	(5,668)	(175)	(1)	(10)	(5,854)
Deletions	(6,040)	(178)	(1)	(10)	(6,229)
Sale of UDC (refer to Note 26 Divestments)	(378)	(165)	-	-	(543)
As at 30 September 2020	14,890	1,335	4	41	16,270
Loss allowance as at 30 September 2020	60	42	-	22	124

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$269 million (72.3%) increase in loss allowances is primarily driven by changes in the forward looking economic scenarios and changes in probability weightings as described in Note 12 to the financial statements, partially offset by the reduction in exposures from the sale of UDC and amounts written-off.

B3. ASSET QUALITY (continued)

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 2018	119	90	8	98	315
Transfer between stages	5	(12)	2	5	-
New and increased provisions (net of collective provision releases)	(4)	40	(4)	30	62
Write-backs	-	-	-	(32)	(32)
Recoveries of amounts previously written off	-	-	-	(3)	(3)
Credit impairment charge / (release)	1	28	(2)	-	27
Bad debts written-off (excluding recoveries)	-	-	-	(32)	(32)
Add back recoveries of amounts previously written off	-	-	-	3	3
Discount unwind	-	-	-	(8)	(8)
As at 30 September 2019	120	118	6	61	305
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2018	41	12	-	-	53
Transfer between stages	2	(2)	-	-	-
New and increased provisions (net of collective provision releases)	-	3	-	11	14
Credit impairment charge	2	1	-	11	14
As at 30 September 2019	43	13	-	11	67

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 2018	41,598	5,185	80	271	47,134
Net transfers in to each stage	-	1,164	37	140	1,341
Amounts drawn from new or existing facilities	5,882	294	9	30	6,215
Additions	5,882	1,458	46	170	7,556
Net transfers out of each stage	(1,339)	-	-	(2)	(1,341)
Amounts repaid	(5,119)	(415)	-	(177)	(5,711)
Deletions	(6,458)	(415)	-	(179)	(7,052)
Amounts written off	-	-	-	(32)	(32)
As at 30 September 2019	41,022	6,228	126	230	47,606
Loss allowance as at 30 September 2019	120	118	6	61	305
Off-balance sheet credit related commitments - corporate exposures					
As at 1 October 2018	15,817	1,118	7	14	16,956
Net transfers in to each stage	38	-	2	14	54
New and increased facilities and drawn amounts repaid	2,477	66	1	-	2,544
Additions	2,515	66	3	14	2,598
Net transfers out of each stage	-	(45)	-	(9)	(54)
Reduced facilities and amounts drawn	(2,651)	(384)	(10)	-	(3,045)
Deletions	(2,651)	(429)	(10)	(9)	(3,099)
Amounts written off	-	-	-	-	-
As at 30 September 2019	15,681	755	-	19	16,455
Loss allowance as at 30 September 2019	43	13	-	11	67

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

The NZ$4 million (1.1%) increase in loss allowances on corporate exposures was primarily driven by an increase in the proportion of Stage 2 collectively assessed exposures, offset by a net decrease in Stage 3 individually assessed exposures.

REGISTERED BANK DISCLOSURES

B3. ASSET QUALITY (continued)

Past due assets

	2020				2019			
	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m	Residential mortgages NZ$m	Other retail exposures NZ$m	Non-retail exposures NZ$m	Total NZ$m
Less than 30 days past due	313	88	549	950	505	177	413	1,095
At least 30 days but less than 60 days past due	86	15	104	205	141	32	85	258
At least 60 days but less than 90 days past due	106	10	15	131	162	18	13	193
At least 90 days past due	470	35	18	523	263	30	31	324
Total past due but not individually impaired	975	148	686	1,809	1,071	257	542	1,870

Other asset quality information								
Undrawn facilities with individually impaired customers	-	-	41	41	-	-	19	19
Other assets under administration	3	1	-	4	2	2	-	4

Asset quality for financial assets designated at fair value

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

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

RBNZ Basel III capital ratios

	Banking Group			Bank (Solo Consolidated)	
	RBNZ minimum	2020	2019	2020	2019
Common equity tier 1 capital	4.5%	**11.7%**	10.8%	**11.3%**	9.7%
Tier 1 capital	6.0%	**14.4%**	13.6%	**14.0%**	12.6%
Total capital	8.0%	**14.4%**	13.6%	**14.0%**	12.6%
Buffer ratio	2.5%	**6.4%**	5.6%	**n/a**	n/a

Capital of the Banking Group

As at 30 September 2020	Note	NZ$m
Tier 1 capital		
Common equity tier 1 (CET1) capital		
Paid up ordinary shares issued by the Bank	21	11,588
Retained earnings (net of appropriations)		3,863
Accumulated other comprehensive income and other disclosed reserves[1]	21	118
Less deductions from common equity tier 1 capital		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,092)
Deferred tax assets less deferred tax liabilities relating to temporary differences		(356)
Cash flow hedge reserve		(110)
Expected losses to the extent greater than total eligible allowances for impairment		(79)
Common equity tier 1 capital		11,932
Additional tier 1 capital		
Preference shares[2]	21	300
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[3]	14	500
NZD 1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)[3]	14	1,003
NZD 938m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN2)[3]	14	938
Retained earnings of the Bonus Bonds Scheme[4]		100
Less deductions from additional tier 1 capital		
Surplus retained earnings of the Bonus Bonds Scheme[4]		(91)
Additional tier 1 capital		2,750
Total tier 1 capital		14,682
Tier 2 capital		-
Total capital		**14,682**

1 Includes the cash flow hedging reserve of NZ$110 million plus the investment securities revaluation reserve of NZ$8 million as at 30 September 2020.
2 Classified as equity on the balance sheet under NZ GAAP.
3 Classified as a liability on the balance sheet under NZ GAAP.
4 Bonus Bonds Scheme is not consolidated on the balance sheet under NZ GAAP but is classified as AT1 capital for capital adequacy purposes as set out in BS2B.

Capital requirements of the Banking Group

As at 30 September 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	204,847	68,772	5,502
Operational risk	n/a	10,139	811
Market risk	n/a	9,405	752
Supervisory adjustment	n/a	13,974	1,118
Total	**n/a**	**102,290**	**8,183**

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.

REGISTERED BANK DISCLOSURES

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

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

IRB credit exposures by exposure class and customer credit rating

As at 30 September 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	0.05	64,427	5,670	62	33	1,976	158
3 - 4	0.33	44,381	23,272	38	43	10,664	853
5	1.00	12,940	10,957	32	56	6,547	524
6	2.30	4,502	4,247	33	77	3,479	278
7 - 8	17.48	1,942	1,603	41	179	3,049	244
Default	100.00	650	649	41	143	981	79
Total corporate exposures	2.62	128,842	46,398	39	54	26,696	2,136
Sovereign							
0	0.01	33,412	18,057	5	1	232	19
1 - 8	0.33	86	85	5	5	4	-
Total sovereign exposures	0.01	33,498	18,142	5	1	236	19
Bank							
1	0.03	53,206	4,022	38	35	1,489	119
2 - 4	0.05	2,326,881	5,768	65	27	1,678	134
5 - 8	1.05	1	1	65	108	1	-
Total bank exposures	0.04	2,380,088	9,791	54	31	3,168	253
Residential mortgages							
0 - 3	0.20	31,240	31,624	12	5	1,829	146
4	0.45	39,362	39,507	20	16	6,606	528
5	0.91	21,081	21,171	24	32	7,198	576
6	1.96	3,825	3,828	26	59	2,391	191
7 - 8	4.65	268	268	26	91	257	21
Default	100.00	542	542	18	10	58	5
Total residential mortgages exposures	1.10	96,318	96,940	18	18	18,339	1,467
Other retail							
0 - 2	0.10	549	552	77	49	289	23
3 - 4	0.26	4,652	4,739	78	55	2,765	221
5	1.10	1,172	1,180	78	83	1,036	83
6	2.66	725	757	83	108	868	69
7 - 8	8.43	880	914	88	137	1,325	106
Default	100.00	62	62	82	40	26	3
Total other retail exposures	2.26	8,040	8,204	79	73	6,309	505
Total credit risk exposures subject to the IRB approach	1.38	2,646,786	179,475	27	29	54,748	4,380

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

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

As at 30 September 2020	Total value NZ$m	Exposure at default NZ$m
Undrawn commitments and other off-balance sheet amounts excluding market related contracts		
Corporate	13,249	12,595
Sovereign	73	72
Bank	1,325	1,179
Residential mortgages	8,866	9,313
Other retail	5,245	5,344
Market related contracts		
Corporate	82,388	1,348
Sovereign	15,285	127
Bank	2,373,317	4,239
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 30 September 2020	On-balance sheet NZ$m	Off-balance sheet NZ$m	Total NZ$m
LVR range			
Does not exceed 60%	42,868	6,098	48,966
Exceeds 60% and not 70%	19,466	1,304	20,770
Exceeds 70% and not 80%	19,563	1,076	20,639
Does not exceed 80%	81,897	8,478	90,375
Exceeds 80% and not 90%	4,061	147	4,208
Exceeds 90%	1,494	241	1,735
Total	87,452	8,866	96,318

Specialised lending subject to the slotting approach

As at 30 September 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	6,350	90	6,058	485
Satisfactory	539	115	657	53
Weak	58	250	153	11
Default	10	-	-	-

As at 30 September 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	1,572	89	1,485	119

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

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

Credit risk exposures subject to the standardised approach

As at 30 September 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	187	-	-	-
Sovereign and central banks	7,108	-	-	-
Multilateral development banks and other international organisations	-	-	-	-
Public sector entities	-	-	-	-
Banks	-	-	-	-
Corporate	1,471	7	110	9
Residential mortgages	-	-	-	-
Past due assets	-	-	-	-
Other assets	1,301	100	1,379	110

As at 30 September 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						
Undrawn commitments and other off-balance sheet exposures	596	68	409	100	433	35
Market related contracts						
Foreign exchange contracts	-	n/a	-	-	-	-
Interest rate contracts	883,549	n/a	1,290	8	112	9
Other - OTC etc	-	n/a	-	-	-	-

Equity exposures

As at 30 September 2020	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Minimum Pillar 1 capital requirement NZ$m
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-

Credit risk mitigation

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

As at 30 September 2020	For portfolios subject to the standardised approach: total value of exposures covered by eligible financial collateral (after haircut) NZ$m	For all portfolios: total value of exposures covered by guarantees or credit derivatives[1] NZ$m
Exposure class		
Sovereign	-	-
Bank	-	-
Corporate (including specialised lending)	-	861
Residential mortgage	-	-
Other	-	-

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

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

Operational risk

As required by its conditions of registration, the Banking Group uses the standardised approach to the calculation of its operational risk capital requirement. As at 30 September 2020, the Banking Group had an implied risk weighted exposure of NZ$10,139 million for operational risk and an operational risk capital requirement of NZ$811 million.

Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the six months ended 30 September 2020.

	Implied risk weighted exposure		Aggregate capital charge	
	Period end	Peak	Period end	Peak
As at 30 September 2020	NZ$m	NZ$m	NZ$m	NZ$m
Interest rate risk	9,392	9,698	751	776
Foreign currency risk	12	138	1	11
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$293 million. (2019: NZ$272 million).

Information about Ultimate Parent Bank and Overseas Banking Group

APRA Basel III capital ratios	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	2020	2019	2020	2019
Common equity tier 1 capital	11.3%	11.4%	11.2%	11.4%
Tier 1 capital	13.2%	13.2%	13.2%	13.4%
Total capital	16.4%	15.3%	16.7%	15.7%

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

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

- the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets. There are however small portfolios (mainly retail and local corporates in Asia Pacific) 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 30 September 2020 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2020. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 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. From 2 April 2020, the minimum amount of core funding was lowered from 75% to 50% of a bank's total loans. The Banking Group must maintain its core funding ratio above the regulatory minimum on a daily basis. This measure of the core funding ratio is averaged over the quarter.

For the three months ended	30 Sep 20	30 Jun 20
Quarterly average 1-week mismatch ratio	9.3%	9.0%
Quarterly average 1-month mismatch ratio	8.3%	8.7%
Quarterly average core funding ratio	90.1%	89.6%

REGISTERED BANK DISCLOSURES

B5. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

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

The exposure information in the table below excludes exposures to:

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

	As at 30 Sep 20	Peak end of day over 6 months to 30 Sep 20
Exposures to banks		
Total number of exposures to banks that are greater than 10% of CET1 capital	1	3
with a long-term credit rating of A- or A3 or above, or its equivalent	1	3
- 10% to less than 15% of CET1 capital	1	2
- 15% to less than 20% of CET1 capital	-	1
with a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1	2	4
with a long-term credit rating of A- or A3 or above, or its equivalent	2	4
- 10% to less than 15% of CET1 capital	1	3
- 21% 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	-	-

B6. CREDIT EXPOSURES TO CONNECTED PERSONS

	Connected persons		Non-bank connected	
	Amount NZ$m	% of Tier 1 Capital	Amount NZ$m	% of Tier 1 Capital
As at 30 September 2020				
Gross amount, before netting	8,323	56.7%	<$1m	0.0%
Amount netted	5,960	40.6%	-	0.0%
Aggregate credit exposure (on partial bilaterial net basis)	2,363	16.1%	<$1m	0.0%
Peak end-of day aggregate credit exposure over the year ended 30 September 2020				
Gross amount, before netting	9,689	68.2%	<$1m	0.0%
Amount netted	5,551	39.1%	-	0.0%
Aggregate credit exposure (on partial bilaterial net basis)	4,138	29.1%	<$1m	0.0%

Credit exposures to connected persons

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

Peak end-of-day aggregate exposure

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

Rating contingent limit

The rating-contingent limit that applied to the Banking Group as at 30 September 2020 was 60%. No limit changes have occurred over the year to 30 September 2020. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier 1 capital that applies to the aggregate credit exposure to non-bank connected persons.

Additional requirements for aggregate credit exposure to connected persons

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

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

NZ$264 million of contingent exposures of the Banking Group to connected persons arose from risk lay-off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) as at 30 September 2020.

Loss allowance for credit-impaired credit exposures to connected persons

There were no loss allowances provided against credit exposures to connected persons as at 30 September 2020.

REGISTERED BANK DISCLOSURES

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

Insurance business

The Banking Group does not conduct any insurance business.

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

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

Activity	Details
Custodial	The Banking Group operates three custodians: • ANZ Custodial Services New Zealand Limited, which is the appointed custodian for private banking's (ANZ Private) Discretionary Investment Management Service, Wholesale Investment Services and Trading Service; • ANZ New Zealand Investments Nominees Limited, which is the appointed custodian in respect of direct holdings of securities by various wholesale customer portfolios managed by ANZ New Zealand Investments Limited (ANZ Investments); and • ANZ New Zealand Securities Limited, which, following the sale of the ANZ Securities service to Jarden Securities Limited (Jarden) in December 2018, remains the appointed custodian for a small number of customers who have not yet transferred to Jarden's Direct Broking service.
Funds management	The Banking Group provides the following funds management services: • *Managed Investment Schemes (MIS):* The Banking Group's subsidiaries ANZ Investments and ANZ Investment Services (New Zealand) Limited (ANZIS) act as manager for a number of managed investment schemes. ANZ Investments holds a MIS Manager licence, with ANZIS being an authorised body under that licence. ANZ Investments is the issuer and manager of ANZ and OneAnswer-branded KiwiSaver, retail and wholesale schemes. ANZIS is the issuer and manager of the Bonus Bonds Scheme and the ANZ PIE Fund. ANZ National Staff Superannuation Limited, also a subsidiary of the Banking Group, is the trustee and manager of the ANZ National Retirement Scheme, which is a restricted workplace savings scheme. • *Discretionary Investment Management Service (DIMS):* The Bank is a licensed DIMS provider. This service is offered to ANZ Private customers. • *Other investment portfolios:* ANZ Investments also manages investment portfolios for a number of schemes where the scheme manager or trustee has outsourced investment management services to ANZ Investments. These schemes are typically corporate superannuation schemes.
Other fiduciary activities	ANZ Investments, through its subsidiary OneAnswer Nominees Limited, offers the OneAnswer Portfolio Service. The associated administration and custody services are provided by FNZ Limited and FNZ Custodians Limited respectively (together FNZ). FNZ is not a member or related party of the Banking Group.

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

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

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

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

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

The Bank stopped distributing credit card insurance during the year ended 30 September 2019, and stopped distributing travel insurance from 30 October 2020.

Arrangements to ensure no adverse impacts arising from the above activities

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

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

Amounts represented by funds management and securitisation activities

	2020 NZ$m	2019 NZ$m
Funds under management:		
KiwiSaver[1]	16,417	14,781
Bonus Bonds Scheme[2]	2,071	3,276
Other managed funds[1]	2,701	2,494
ANZ PIE Fund[2]	2,309	2,131
DIMS[3]	8,087	8,062
Other investment portfolios[4]	3,638	3,401
Total funds under management	35,223	34,145
Funds under custodial arrangements	8,353	8,373
Other funds held or managed subject to fiduciary responsibilities[5]	1,491	1,401
Outstanding securitised assets originated by the Banking Group - carrying amount of covered bonds	4,522	4,460

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

Financial services provided to entities conducting the above activities

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

Assets purchased from entities conducting the above activities

Over the year ended 30 September 2020, any assets purchased by any member of the Banking Group from entities that conduct the activities in a), b) or c) above have been purchased on arm's length terms and conditions and at fair value.

Funding provided to entities in aggregate and individually

The peak end-of day aggregate amount of funding provided to entities that provide services relating to the Banking Group's involvement in the above activities over the year ended 30 September 2020 was less than NZ$0.1 million (2019: less than NZ$0.1 million) which was 0.0% (2019: 0.0%) of the Banking Group's tier 1 capital and 0.0% (2019: 0.0%) of the total assets of the individual entity.

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

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

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES

Information about risk

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

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

The key pillars of the Banking Group's RMF include:

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

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

Key Material Risks

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

Risk Type	Description	Managing the Risk
Strategic Risk	Risks that affect or are created by an organisation's business strategy and strategic objectives. Strategic risk might arise from making poor strategic business decisions, from the sub-standard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in a business environment.	We consider and manage strategic risks through our annual strategic planning process, managed by the Executive Committee and approved by the Board. Where the strategy leads to an increase in Key Material Risks (e.g. Credit Risk, Market Risk, Operational Risk) the risk management strategies associated with these risks form the primary controls.
Capital Adequacy Risk	The risk of loss arising from the Banking Group failing to maintain the level of capital required by prudential regulators and other key stakeholders (shareholders, debt investors, depositors, rating agencies, etc.) to support the Banking Group's consolidated operations and risk appetite.	We pursue an active approach to Capital Management through ongoing review, and Board approval, of the level and composition of our capital base against key policy objectives.
Credit Risk	The risk of financial loss resulting from: • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. Credit Risk incorporates the risks associated with us lending to customers who could be impacted by climate change or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies. Includes: • concentrations of credit risk; • intra-day credit risk; • credit risk to bank counterparties; and • related party credit risk.	Our Credit Risk framework is top down, being defined by credit principles and policies. Credit policies, requirements and procedures cover all aspects of the credit life cycle - for example: transaction structuring, risk grading, initial approval, ongoing management and problem debt management, as well as specialist policy topics. The effectiveness of the Credit Risk framework is assessed through various compliance and monitoring processes. These, together with portfolio selection, define and guide the credit process, organisation and staff.
Market Risk	The risk to the Banking Group's earnings arising from: • changes in any interest rates, foreign exchange rates, credit spreads, volatility, and correlations; or • fluctuations in bond, commodity or equity prices.	Our risk management and control framework for Market Risk involves us quantifying the magnitude of market risk within the trading and balance sheet portfolios through independent risk measurement. This identifies the range of possible outcomes, the likely timeframe, and the likelihood of the outcome occurring. Then we allocate an appropriate amount of capital to support these activities. The Banking Group's key tools to measure and manage Market Risk on a daily basis include value at risk, earnings at risk, interest rate sensitivities, market value loss limits and stress testing.

B8. RISK MANAGEMENT POLICIES (continued)

Risk Type	Description	Managing the Risk
Liquidity and Funding Risk	The risk that the Banking Group is unable to meet its payment obligations as they fall due, including: • repaying depositors or maturing wholesale debt; or • the Banking Group having insufficient capacity to fund increases in assets.	Key principles in managing our Liquidity and Funding Risk include: • maintaining our ability to meet liquidity 'survival horizons' under a range of stress scenarios to meet cash flow obligations over a short to medium term horizon; • maintaining a strong structural funding profile; and • maintaining a portfolio of high-quality liquid assets to act as a source of liquidity in times of stress.
Operational Risk	The risk of loss and/or non-compliance with laws resulting from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk, and the risk of reputation loss, or damage arising from inadequate or failed internal processes, people and/or systems; but excludes strategic risk.	We operate a three-lines-of-defence model to manage Operational Risk, with each line of defence having defined roles, responsibilities and escalation paths to support effective communication and effective management of our operational risk. We also have ongoing review mechanisms to ensure Operational Risk and Compliance Framework continues to meet organisational needs and regulatory requirements.
	Compliance Risk The risk of failure to act in accordance with laws, regulations, industry standards and codes, internal policies and procedures and principles of good governance as applicable to the Banking Group's businesses.	Key features of how we manage Compliance Risk as part of our Operational Risk and Compliance Framework include: • centralised management of key obligations, and emphasis on identifying changes in regulations and the business environment, so as to enable us to proactively assess emerging compliance risks and implement robust reporting and certification processes. • recognition of incident management as a separate element to enhance the Banking Group's ability to identify, manage and report on incidents/breaches in a timely manner. • the Whistleblower Protection Policy allowing employees and contractors to make confidential, anonymous submissions regarding concerns relating to accounting, internal control, compliance, audit and other matters.
	Conduct and Reputation Risk The risk of loss that directly or indirectly impacts earnings, capital adequacy or value, that is caused by: • adverse perceptions of the Banking Group held by any of our customers, the community, shareholders, investors, regulators, or rating agencies; • conduct risk associated with the Banking Group's employees or contractors (or both); or the social or environmental (or both) impacts of our lending decisions.	We manage Conduct and Reputation Risk by maintaining a positive and dynamic culture that: • ensures we act with integrity; and • enables us to build strong and trusted relationships with customers and clients, with colleagues, and with the broader society. We have well established decision-making frameworks and policies to ensure our business decisions are guided by sound social and environmental standards that take into account Conduct and Reputation Risk.

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

Other Material Risks

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

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

REGISTERED BANK DISCLOSURES

B8. RISK MANAGEMENT POLICIES (continued)

Capital adequacy

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

Reviews of the Banking Group's risk management systems

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

Internal Audit Function of the Banking Group

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

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

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

The Audit Committee is also responsible for:

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

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

Measurement of impaired assets

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

Credit risk mitigation

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

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

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

Additional information about credit risk

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

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

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

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

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

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

B8. RISK MANAGEMENT POLICIES (continued)

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

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

Standardised approach

Exposure Class	Exposure Type	Reason for Standardised Approach	Future Treatment
Corporate	Merchant card prepayment exposures	System constraints	Move to IRB
	Corporate credit cards	System constraints	Move to IRB
Bank	Qualifying Central Counterparty (QCCP)	Required by BS2B	Standardised
Equity		Required by BS2B	Standardised
Other assets	All other assets not falling within any of the above classes	Required by BS2B	Standardised

Controls surrounding credit risk rating systems

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

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

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

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

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

DIRECTORS' STATEMENT

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

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

Over the year ended 30 September 2020, after due enquiry, each Director believes that, except as noted on pages 81 and 82:

- 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, 17 November 2020.

Antony Carter

Shayne Elliott

Alison Gerry

Michelle Jablko

Rt Hon Sir John Key, GNZM AC

Mark Verbiest

Antonia Watson

Joan Withers

TO THE SHAREHOLDER OF ANZ BANK NEW ZEALAND LIMITED

REPORT ON THE BANKING GROUP DISCLOSURE STATEMENT

OPINION

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

- the consolidated balance sheet as at 30 September 2020;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the Order).

In our opinion, the accompanying consolidated financial statements on pages 4 to 70:

- give a true and fair view of the Banking Group's financial position as at 30 September 2020 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

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

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

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

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

BASIS FOR OPINION

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Key changes in the assessment of audit risks

COVID-19

The COVID-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the provision for credit impairment. All forward looking assumptions are inherently more uncertain during these unprecedented times. While the key audit matter "Allowance for Expected Credit Loss", detailed below, is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather.

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The key audit matter

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

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

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

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

Additionally, allowances for individually assessed wholesale loans exceeding specific thresholds are individually assessed by the Banking Group. We exercise significant judgement in challenging the assessment of specific allowances based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Banking Group in respect of the loans.

How the matter was addressed in our audit

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

We tested key controls in relation to:

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

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

In addition to controls testing, our procedures included:

- Re-performing credit assessments of a sample of wholesale loans controlled by the Banking Group's specialist workout and recovery team, who assessed these as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by the Banking Group as showing signs of deterioration, or in areas of emerging risk (assessed against external market conditions and in particular considered the impacts of COVID-19). For each loan sampled, we challenged the Banking Group's CCR and Security Indicator (SI), assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we reviewed the information on the Banking Group's loan file, understood the facts and circumstances of the case with the relationship manager, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment, and comparing data and assumptions used by the Banking Group in recoverability assessments to externally sourced evidence, such as commodity prices and external property sale information;
- Obtaining an understanding of the Banking Group's processes to determine ECL allowances, evaluating the Banking Group's ECL model methodologies against established market practices and criteria in the accounting standards;
- Working with KPMG Financial Risk Management specialists, we assessed the accuracy of the Banking Group's ECL model estimates by re-performing, for a sample of loans, the ECL allowance using our independently driven calculation tools and comparing this to the amount recorded by the Banking Group;
- Working with our KPMG Economic specialists, we challenged the Banking Group's forward-looking macroeconomic assumptions and scenarios

incorporated in the Banking Group's ECL models. We compared the Banking Group's forecast GDP and unemployment rates to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the implementation of the Banking Group's SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements in the CCR from loan origination CCR and comparing our expectation to actual staging applied on an individual account level in the Banking Group's ECL model; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

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

- Assessing the requirement for other additional allowances considering the Banking Group's ECL model and data deficiencies identified by the Banking Group's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;
- Evaluating underlying data used in concentration risk and economic cycle allowances by comparing underlying portfolio characteristics to loss experience, current market conditions and specific risks inherent in the Banking Group's loan portfolios;
- Assessing the impacts on the modelled ECL and the requirement for out of model adjustments to account for the portion of customers on loan deferral packages that are not aged. We also assessed assumptions used to determine whether a SICR event has occurred; and
- Assessing the completeness of additional allowance overlays by checking the consistency of risks we identified in the portfolios against the Banking Group's assessment.

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

VALUATION OF FINANCIAL INSTRUMENTS

The key audit matter

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

The valuation of Level 2 financial instruments held at fair value is a key audit matter due to the complexity associated with the valuation methodology and models of certain more complex Level 2 financial instruments leading to an increase in subjectivity and estimation uncertainty. Level 2 financial instruments represent 42% of the Banking Group's financial assets carried at fair value and 98% of the Banking Group's financial liabilities carried at fair value.

How the matter was addressed in our audit

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

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

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

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

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

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

IT SYSTEMS AND CONTROLS

The key audit matter

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

How the matter was addressed in our audit

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

Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT environment, including the approach to the Banking Group policy design, review and awareness;

INDEPENDENT AUDITOR'S REPORT

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

PROVISION FOR CUSTOMER REMEDIATION

The key audit matter

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

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

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

How the matter was addressed in our audit

Our audit procedures for customer remediation provisions included:

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

COMPLETENESS AND ACCURACY OF RELATED PARTY DISCLOSURES

The key audit matter

The Banking Group has increased its focus on related party disclosures. We also reassessed the risk of completeness and accuracy of related party disclosures. We consider the increased risk to primarily arise from transactions with key management personnel and their related parties.

How the matter was addressed in our audit

Our audit procedures for related party disclosures included:

- Challenging the Banking Group's definition of related parties and related party transactions;
- Testing the key control over the Banking Group's process for identifying key management personnel, their related parties and their transactions and balances;
- Sample testing the related parties identified, by searching the Directors' Interests Register and public records to identify companies controlled by key management personnel or their close family members;
- Agreeing a sample of key management personnel compensation, transactions and balances identified by the Banking Group to approval documents and source systems;
- Sample testing the Banking Group's core bank system to identify undisclosed balances with key management personnel and their related parties; and
- Evaluating the Banking Group's assertion that key management personnel transactions are on normal commercial terms by testing a sample of transactions and comparing the terms offered to those offered to other employees or customers.

CARRYING VALUE OF GOODWILL

The key audit matter
Carrying value of goodwill is a key audit matter as:

The wide ranging impact of COVID-19 has increased the potential for impairment and our audit effort in this area. Significant judgement was required by the Banking Group as a result of the current COVID-19 environment and the Reserve Bank of New Zealand's increased capital requirements over the period 1 July 2021 to 1 July 2028. COVID-19 has caused significant estimation uncertainty and as a result there is increased judgement in forecasting cash flows and assumptions used in the goodwill impairment assessment.

These conditions and the uncertainty of their continuation increase the risk of inaccurate forecasts or a significantly wider range of possible outcomes and therefore the possibility of goodwill being impaired.

The Banking Group's goodwill impairment assessment is sensitive to small changes in revenue growth rates, terminal growth rates, discount rates, future maintainable earnings, market multiples and control premium assumptions. This drives additional audit effort.

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

Working with our valuation specialists, our procedures included:

- In accordance with accounting standards, assessing the reasonableness of the cash-generating units (CGU) to which the Banking Group allocated goodwill;
- Reconciling the movement in goodwill including the reasonableness of the allocation of goodwill to the disposal of UDC and the impairment of goodwill on wind-up of Bonus Bonds;
- Considering the appropriateness of the valuation methods applied by the Banking Group, being value in use (VIU) and fair value less costs of disposal (FVLCOD) to perform their annual test for impairment against the requirements of the accounting standards;
- Assessing the integrity of the VIU model and the FVLCOD model used by the Banking Group, including the accuracy of the underlying calculation formulae;
- Assessing key assumptions used in the FVLCOD model, such as, future maintainable earnings, the control premium comparing the implied multiples from comparable market transactions to the implied multiple used in the model;
- Having considered the reasonableness of the FVLCOD model, performing a cross check against the Banking Group's VIU model for each CGU to identify any inconsistences in assumptions;
- Comparing the forecast cash flows contained in the VIU model to the Banking Group's revised strategic plans, reflecting the low interest rate environment, the increased regulatory minimum capital requirements and COVID-19 impacts;
- Assessing the accuracy of previous Banking Group forecasts to inform our evaluation of forecasts incorporated in the VIU model;
- For each CGU, assessing the Banking Group's key assumptions used in the VIU model, including discount rates, revenue growth rates, and terminal growth rates by comparing to external observable metrics, historical experience, our knowledge of the markets and current market practice;
- Stress testing key VIU assumptions to consider reasonably possible alternatives, including long term OCR forecasts and forecast lending growth;
- Determining with reference to our analysis of both FVLCOD and VIU, whether there is sufficient appropriate evidence to support the Banking Group's conclusion that there is no impairment in goodwill associated with any CGU; and
- Assessing the disclosures in the financial statements against the requirements of the accounting standards.

OTHER INFORMATION

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

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

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

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

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

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

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

Our objective is:

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

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

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

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

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

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

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

We have reviewed the registered bank disclosures, as disclosed in section B4 of the Disclosure Statement for the year ended 30 September 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 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 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the 'Auditor's Responsibilities for the review of the registered bank disclosures in section B4' section of our report.

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

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

- Commercial property Model Suite (single investment, multi-investment, Hotel Investment, Special Purpose Asset investment, Single Residential Development, 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, that is required to be prepared in accordance with Schedule 11 of the Order.

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

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

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

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

USE OF THIS INDEPENDENT AUDITOR'S REPORT

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

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

For and on behalf of

KPMG

KPMG
Auckland

17 November 2020