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

FOR THE YEAR ENDED 30 SEPTEMBER 2015 | NUMBER 79 ISSUED NOVEMBER 2015

Annual Report and Registered Bank Disclosure Statement

For the year ended 30 September 2015

Contents

Annual Report

For the year ended 30 September 2015

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 2015 and the audit report on those financial statements.

For and on behalf of the Board of Directors:

John Judge
Chairman
18 November 2015

David Hisco
Executive Director
18 November 2015

Glossary of Terms

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

(a) Bank means ANZ Bank New Zealand Limited;
(b) Banking Group means the Bank and all its controlled entities;
(c) Immediate Parent Company means ANZ Holdings (New Zealand) Limited;
(d) Ultimate Parent Bank means Australia and New Zealand Banking Group Limited;
(e) Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities;
(f) 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;
(g) NZ Branch means the New Zealand business of the Ultimate Parent Bank;
(h) ANZ New Zealand means the New Zealand business of the Overseas Banking Group;
(i) Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service;
(j) RBNZ means the Reserve Bank of New Zealand;
(k) APRA means the Australian Prudential Regulation Authority;
(l) the Order means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
(m) 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.

Income Statement

NZ$ millions	Note	Year to 30/09/2015	Year to 30/09/2014
Interest income	3	6,926	6,272
Interest expense	4	4,051	3,529
Net interest income		2,875	2,743
Net trading gains	3	262	210
Net funds management and insurance income	3	385	325
Other operating income	3	523	547
Share of associates' profit		5	3
Operating income		4,050	3,828
Operating expenses	4	1,512	1,489
Profit before credit impairment and income tax		2,538	2,339
Credit impairment charge / (release)	13	74	(16)
Profit before income tax		2,464	2,355
Income tax expense	5	681	639
Profit after income tax		1,783	1,716

Statement of Comprehensive Income

NZ$ millions	Year to 30/09/2015	Year to 30/09/2014
Profit after income tax	1,783	1,716
Items that will not be reclassified to profit or loss		
Actuarial gain / (loss) on defined benefit schemes	(32)	35
Income tax credit / (expense) relating to items not reclassified	9	(10)
Total items that will not be reclassified to profit or loss	(23)	25
Items that may be reclassified subsequently to profit or loss		
Unrealised gains / (losses) recognised directly in equity	12	(2)
Realised gains transferred to the income statement	(16)	(41)
Income tax credit relating to items that may be reclassified	1	12
Total items that may be reclassified subsequently to profit or loss	(3)	(31)
Total comprehensive income for the year	1,757	1,710

Balance Sheet

NZ$ millions	Note	30/09/2015	30/09/2014
Assets			
Cash	8	2,380	1,822
Settlement balances receivable		309	855
Collateral paid		1,929	783
Trading securities	9	12,139	11,750
Investments backing insurance contract liabilities		151	190
Derivative financial instruments	10	17,658	11,404
Available-for-sale assets	11	1,428	772
Net loans and advances	12	106,357	96,299
Other assets	23	740	648
Life insurance contract assets		552	470
Investments in associates		4	88
Premises and equipment		388	380
Goodwill and other intangible assets	24	3,492	3,454
Total assets		147,527	128,915
Interest earning and discount bearing assets		124,785	111,914
Liabilities			
Settlement balances payable		1,844	2,296
Collateral received		1,687	800
Deposits and other borrowings	14	90,678	84,019
Derivative financial instruments	10	17,230	10,205
Current tax liabilities		87	67
Deferred tax liabilities	5	124	60
Payables and other liabilities	25	1,487	1,297
Provisions	26	191	204
Debt issuances	15	19,403	17,042
Subordinated debt	16	2,343	1,144
Total liabilities		135,074	117,134
Net assets		12,453	11,781
Equity			
Share capital	27	8,888	8,213
Reserves		(10)	(7)
Retained earnings		3,575	3,575
Total equity		12,453	11,781
Interest and discount bearing liabilities		108,629	97,809

For and on behalf of the Board of Directors:

John Judge
Chairman
18 November 2015

David Hisco
Executive Director
18 November 2015

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

Cash Flow Statement

NZ$ millions	Note	Year to 30/09/2015	Year to 30/09/2014
Cash flows from operating activities			
Interest received		**6,857**	6,189
Dividends received		**89**	4
Net funds management & insurance income		**303**	261
Fees and other income received		**662**	686
Interest paid		**(3,985)**	(3,429)
Operating expenses paid		**(1,387)**	(1,430)
Income taxes paid		**(587)**	(468)
Cash flows from operating profits before changes in operating assets and liabilities		**1,952**	1,813
Net changes in operating assets and liabilities:			
Change in settlements receivable		**4**	167
Change in collateral paid		**(1,146)**	219
Change in trading securities		**(208)**	(1,025)
Change in derivative financial instruments		**2,837**	(480)
Change in available-for-sale assets		**(634)**	188
Change in insurance investment assets		**39**	(18)
Change in loans and advances		**(12,198)**	(8,873)
Proceeds from sale of loans and advances to NZ Branch		**1,891**	3,393
Change in settlements payable		**519**	33
Change in collateral received		**887**	362
Change in deposits and other borrowings		**6,511**	5,498
Net changes in operating assets and liabilities		**(1,498)**	(536)
Net cash flows provided by operating activities	7	**454**	1,277
Cash flows from investing activities			
Proceeds from sale of shares in associates		**-**	9
Proceeds from sale of premises and equipment		**-**	9
Purchase of intangible assets		**(73)**	(43)
Purchase of premises and equipment		**(59)**	(77)
Net cash flows used in investing activities		**(132)**	(102)
Cash flows from financing activities			
Proceeds from issue of debt issuances		**4,212**	4,431
Proceeds from issue of subordinated debt		**1,497**	-
Proceeds from issue of ordinary shares		**675**	970
Redemptions of debt issuances		**(4,008)**	(3,684)
Redemptions of subordinated debt		**(297)**	-
Change in funding from Immediate Parent Company		**-**	(913)
Dividends paid		**(1,760)**	(2,353)
Net cash flows provided by / (used in) financing activities		**319**	(1,549)
Net increase / (decrease) in cash and cash equivalents		**641**	(374)
Cash and cash equivalents at beginning of the year		**1,830**	2,204
Cash and cash equivalents at end of the year	7	**2,471**	1,830

The notes to the financial statements form part of and should be read in conjunction with these financial statements.

Statement of Changes in Equity

NZ$ millions	Note	Share capital	Available-for-sale revaluation reserve	Cash flow hedging reserve	Retained earnings	Total equity
As at 1 October 2013		7,243	(2)	26	4,187	11,454
Profit after income tax		-	-	-	1,716	1,716
Unrealised gains / (losses) recognised directly in equity		-	3	(5)	-	(2)
Realised gains transferred to the income statement		-	-	(41)	-	(41)
Actuarial gain on defined benefit schemes		-	-	-	35	35
Income tax credit / (expense) on items recognised directly in equity		-	(1)	13	(10)	2
Total comprehensive income for the year		-	2	(33)	1,741	1,710
Ordinary shares issued	**27**	970	-	-	-	970
Ordinary dividend paid	**27**	-	-	-	(2,340)	(2,340)
Preference dividend paid	**27**	-	-	-	(13)	(13)
As at 30 September 2014		8,213	-	(7)	3,575	11,781
Profit after income tax		**-**	**-**	**-**	**1,783**	**1,783**
Unrealised gains recognised directly in equity		**-**	**-**	**12**	**-**	**12**
Realised gains transferred to the income statement		**-**	**-**	**(16)**	**-**	**(16)**
Actuarial loss on defined benefit schemes		**-**	**-**	-	**(32)**	**(32)**
Income tax credit on items recognised directly in equity		**-**	**-**	**1**	**9**	**10**
Total comprehensive income for the year		**-**	**-**	**(3)**	**1,760**	**1,757**
Ordinary shares issued	**27**	**675**	**-**	**-**	**-**	**675**
Ordinary dividend paid	**27**	**-**	**-**	**-**	**(1,745)**	**(1,745)**
Preference dividend paid	**27**	**-**	**-**	**-**	**(15)**	**(15)**
As at 30 September 2015		**8,888**	**-**	**(10)**	**3,575**	**12,453**

Notes to the Financial Statements

1. Significant Accounting Policies

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Order. The financial statements are for the Bank's consolidated group, which includes its subsidiaries and associates.

These financial statements comply with

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

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(ii) Use of estimates and assumptions

The preparation of these financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, are covered in note 2. Such estimates are reviewed on an ongoing basis.

(iii) Basis of measurement

The financial information has been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

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

(iv) Changes in accounting policies and application of new accounting standards

The accounting policies are consistent with those of the previous financial year.

(v) Rounding

The amounts in the financial statements have been rounded to the nearest million dollars, except where otherwise stated.

(vii) Principles of consolidation

Subsidiaries

The consolidated financial statements of the Banking Group comprise the financial statements of the Bank and all its subsidiaries. An entity, including a structured entity, is considered a subsidiary of the Banking Group when it is determined that control over the entity exists. Control is deemed to exist when the Banking Group is exposed, 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. Power is assessed by examining existing rights that give the Banking Group the current ability to direct the relevant activities of the entity.

At times, the determination of control can be judgemental. Further detail on the judgements involved in assessing control has been provided in note 2.

The effect of all transactions between entities in the Banking Group is eliminated.

Associates

The Banking Group applies the equity method of accounting for associates.

(viii) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Banking Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The Banking Group's financial statements are presented in New Zealand dollars, which is the Banking Group's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities resulting from foreign currency transactions are subsequently translated at the spot rate at reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different to those at which they were initially recognised or included in a previous financial report, are recognised in the income statement in the period in which they arise.

(b) Income recognition

(i) Interest income

Interest income is recognised as it accrues, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability so as to achieve a constant yield on the financial asset or liability.

For assets subject to prepayment, expected life is determined on the basis of the historical behaviour of the particular asset portfolio, taking into account contractual obligations and prepayment experience. This is assessed on a regular basis.

Notes to the Financial Statements

(ii) Fee and commission income

Fees and commissions received that are integral to the effective interest rate of a financial asset are recognised using the effective interest method. For example, loan commitment fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

Fees and commissions that relate to the execution of a significant act (for example, advisory or arrangement services, placement fees and underwriting fees) are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

(c) Expense recognition

(i) Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the income statement as it accrues using the effective interest method.

(ii) Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers and certain customer incentive payments in respect of originating lending business; and
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the issue of a financial asset.

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the effective yield of the financial asset over its expected life using the effective interest method.

(d) Income tax

(i) Income tax expense

Income tax on earnings for the year comprises current and deferred tax and is based on the applicable tax law. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(ii) Current tax

Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(iii) Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credit can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Banking Group, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

(iv) Offsetting

Current and deferred tax assets and liabilities are offset 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.

(e) Assets

Financial assets

(i) Financial assets and liabilities at fair value through profit or loss

Trading securities are financial instruments acquired principally for the purpose of selling in the short-term or which are a part of a portfolio which is managed for short-term profit-taking. Trading securities are initially recognised and subsequently measured in the balance sheet at their fair value.

Derivatives that are not effective accounting hedging instruments are carried at fair value through profit or loss.

In addition, certain financial assets and liabilities are designated and measured at fair value through profit or loss where the following applies:

- the asset represents investments backing insurance policy liabilities;
- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities, or recognising the gains or losses thereon, on different bases;
- a group of financial assets or financial liabilities or both is managed and its performance evaluated on a fair value basis; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Notes to the Financial Statements

Changes in the fair value (gains or losses) of these financial instruments are recognised in the income statement in the period in which they occur.

Purchases and sales of trading securities are recognised on trade date.

(ii) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying price index or other variables. They include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are entered into for trading purposes (including customer-related reasons) or for hedging purposes (where the derivative instruments are used to hedge the Banking Group's exposures to interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions).

Derivative financial instruments are recognised initially at fair value with gains or losses from subsequent measurement at fair value being recognised in the income statement. Valuation adjustments are integral in determining the fair value of derivatives. This includes a credit valuation adjustment (CVA) to reflect the credit worthiness of the counterparty and funding valuation adjustment (FVA) to account for the funding cost inherent in the portfolio.

Where the derivative is effective as a hedging instrument and designated as such, the timing of the recognition of any resultant gain or loss in the income statement is dependent on the hedging designation. These hedging designations and associated accounting are as follows:

Fair value hedge

Where the Banking Group hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the income statement. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement over the period to maturity of the hedged item.

If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedge

The Banking Group designates derivatives as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, a foreign exchange component of a firm commitment, or a highly probable forecast transaction. For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedges is recognised initially in other comprehensive income and then recycled to the income statement in the periods when the hedged item will affect profit or loss. Any ineffective portion is recognised immediately in the income statement. When the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in equity remains in the hedging reserve, and is subsequently transferred to the income statement when the hedged item is recognised in the income statement.

When a forecast hedged transaction is no longer expected to occur, the amount deferred in equity is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are not designated in a hedging relationship but are entered into to manage the interest rate and foreign exchange risk of the Banking Group are recognised in the income statement. Under certain circumstances, the component of the fair value change in the derivative which relates to current period realised and accrued interest is included in net interest income. The remainder of the fair value movement is included in other income.

(iii) Available-for-sale assets

Available-for-sale assets comprise non-derivative financial assets which the Banking Group designates as available-for-sale but which are not deemed to be held principally for trading purposes, and include equity investments and debt securities.

They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve. When the asset is sold, the cumulative gain or loss relating to the asset is transferred to the income statement.

Purchases and sales of available-for-sale financial assets are recognised on trade date, being the date on which the Banking Group commits to purchase or sell the asset.

(iv) Net loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Banking Group provides money to a debtor with no intention of trading the loans and advances. The loans and advances are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan or advance. They are subsequently measured at amortised cost using the effective interest method, unless specifically designated on initial recognition at fair value through profit or loss.

All loans are graded according to the level of credit risk.

Net loans and advances include direct finance provided to customers such as bank overdrafts, credit cards, term loans and finance lease receivables.

Notes to the Financial Statements

Impairment of loans and advances

Loans and advances are reviewed at least at each reporting date for impairment.

Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events, that occurred after the initial recognition of the loan and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Impairment is assessed for assets that are individually significant (or on a portfolio basis for small value loans) and then on a collective basis for those exposures not individually known to be impaired.

Exposures that are assessed collectively are placed in pools of similar assets with similar risk characteristics. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data such as changed economic conditions. The provision also takes account of the impact of inherent risk of large concentrated losses within the portfolio and an assessment of the economic cycle.

The estimated impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income.

Impairment of capitalised acquisition expenses is assessed through comparing the actual behaviour of the portfolio against initial expected life assumptions.

The provision for impairment loss (individual and collective) is deducted from loans and advances in the balance sheet and the movement for the reporting period is reflected in the income statement.

When a loan is uncollectible, either partially or in full, it is written off against the related provision for loan impairment. Unsecured facilities are normally written-off when they become 180 days past due or earlier in the event of the customer's bankruptcy or similar legal release from the obligation. However, a certain level of recoveries is expected after the write-off, which is reflected in the amount of the provision for credit losses. In the case of secured facilities, remaining balances are written-off after proceeds from the realisation of collateral have been received, if there is a shortfall.

Where impairment losses recognised in previous periods have subsequently decreased or no longer exist, such impairment losses are reversed in the income statement.

A provision is also raised for off-balance sheet items such as commitments that are considered to be onerous.

(v) Lease receivables

Contracts to lease assets and hire purchase agreements are classified 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. All other lease contracts are classified as operating leases.

(vi) Repurchase agreements

Securities sold under repurchase agreements are retained in the financial statements where substantially all the risks and rewards of ownership remain with the Banking Group, and a counterparty liability is disclosed under deposits and other borrowings. The difference between the sale price and the repurchase price is accrued over the life of the repurchase agreement and charged to interest expense in the income statement.

Securities purchased under agreements to resell, where the Banking Group does not acquire the risks and rewards of ownership, are recorded as cash or net loans and advances if original maturity is greater than 90 days. The security is not included in the balance sheet. Interest income is accrued on the underlying loan amount.

Securities borrowed are not recognised in the balance sheet, unless these are sold to third parties, at which point the obligation to repurchase is recorded as a financial liability at fair value with fair value movements included in the income statement.

(vii) Derecognition

The Banking Group enters into transactions where it transfers financial assets recognised on its balance sheet yet retains either all or a portion of the risks and rewards of the transferred assets. If all, or substantially all, the risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Banking Group derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Banking Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

Non-financial assets

(viii) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. Goodwill is recognised as an asset and not amortised, but is assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. This involves using the discounted cash flows methodology to determine the expected future benefits of the cash-generating units to which the goodwill relates. Where the assessment results in the goodwill balance exceeding the value of expected future benefits, the

Notes to the Financial Statements

difference is charged to the income statement. Any impairment of goodwill is not subsequently reversed.

(f) Liabilities

Financial liabilities

(i) Deposits and other borrowings

Deposits and other borrowings include certificates of deposit, interest bearing deposits, UDC secured investments, commercial paper and other related interest and non-interest bearing financial instruments. Deposits and other borrowings, excluding commercial paper, are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost. The interest expense is recognised using the effective interest method. Commercial paper is designated at fair value through profit or loss, with fair value movements recorded directly in the income statement, which reflects the basis on which it is managed.

(ii) Debt issuances and subordinated debt

Debt issuances and subordinated debt are accounted for in the same way as deposits and other borrowings.

(iii) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given; typically this is the premium received. Subsequent to initial recognition, the Banking Group's liabilities under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses.

(iv) Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(g) Equity

(i) Shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

(ii) Reserves

Available-for-sale revaluation reserve

This reserve includes changes in the fair value of available-for-sale financial assets, net of tax. These changes are transferred to the income statement (in other operating income) when the asset is derecognised. Where the asset is impaired, the changes are transferred to the impairment expense line in the income statement for debt instruments and in the case of equity instruments to non-interest income.

Cash flow hedging reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement.

(h) Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument;
- where gains and losses relating to fair value hedges are assessed as being effective; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

(ii) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Statement of cash flows

For cash flow statement presentation purposes, cash and cash equivalents includes cash and nostro balances included in settlement balances receivable and settlement balances payable.

(iv) Goods and services tax

Income, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Inland Revenue Department (IRD). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as other assets or other liabilities in the balance sheet.

Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the IRD are classified as operating cash flows.

(v) Segment reporting

Operating segments are distinguishable components of the Banking Group that provide products or services that are subject to risks and rewards that are different to those of other operating segments. The Banking Group operates predominately in the banking industry within New

Notes to the Financial Statements

Zealand. The Banking Group has very limited exposure to risk associated with operating in different economic environments or political conditions. On this basis no geographical segment information is provided.

(i) Other

(i) Contingent liabilities

Contingent liabilities are not recognised in the balance sheet but disclosed in note 22 unless it is considered remote that the Banking Group will be liable to settle the possible obligation.

(ii) Accounting Standards not early adopted

The following standard was available for early adoption but has not been applied in these financial statements.

Standards and amendments effective for periods commencing after 1 January 2018

NZ IFRS 9 Financial Instruments
The External Reporting Board issued the final version of *NZ IFRS 9 Financial Instruments* in September 2014. When operative, this standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. NZ IFRS 9 is not mandatorily effective for the Banking Group until 1 October 2018. The Banking Group is in the process of assessing the impact of application of NZ IFRS 9 and is not yet able to reasonably estimate the impact on its financial statements.

2. Critical Estimates and Judgements Used in Applying Accounting Policies

There are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Banking Group, in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements is set out below.

Critical accounting estimates and assumptions

Credit provisioning

The accounting policy relating to measuring the impairment of loans and advances requires the Banking Group to assess impairment at least at each reporting date. The credit provisions raised (collective and individual) represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

The collective provision is estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data and events and an assessment of the impact of model risk. The provision also takes into account the impact of large concentrated losses within the portfolio and the economic cycle.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on the reliability of the provision.

Individual and collective provisioning involves the use of assumptions for estimating the amounts and timing of expected future cash flows. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are revised regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 13 for details of credit impairment provisions.

Critical judgements in applying the Banking Group's accounting policies

Financial instruments at fair value

The Banking Group's financial instruments measured at fair value are stated in note 1(a)(iii). In estimating fair value the Banking Group uses, wherever possible, quoted market prices in an active market for the financial instrument.

In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The valuation models incorporate the impact of bid/ask spread, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. The selection of appropriate valuation techniques, methodology and inputs requires judgement. These are reviewed and updated as market practice evolves.

Derivatives and hedging

The Banking Group buys and sells derivatives as part of its trading operations and to hedge its interest rate risk, currency risk, price risk, credit risk and other exposures relating to non-trading positions.

A hedging instrument is a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. A hedged item is an asset, liability, firm commitment or highly probable forecast transaction that: (a) exposes the Banking Group to the risk of changes in fair value or future cash flows; and (b) is designated as being hedged.

Judgement is required in selecting and designating hedging relationships and assessing hedge effectiveness. NZ IAS 39 *Financial Instruments: Recognition and Measurement* does not specify a single method for assessing hedge effectiveness prospectively or retrospectively. The Banking Group adopts the hypothetical derivative approach to determine hedge effectiveness in line with current risk management strategies. Hedge ineffectiveness can arise for a number of reasons and whilst a hedge may pass the effectiveness tests above it may not be perfectly effective, leaving some volatility in the income statement.

Notes to the Financial Statements

The majority of outstanding derivative positions are transacted over-the-counter and therefore need to be valued using valuation techniques. Included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA) to reflect the creditworthiness of the counterparty. This is influenced by the mark-to-market of the derivative trades and by the movement in the market cost of credit. Further adjustments are made to account for the funding costs inherent in the derivative. Judgment is required to determine the appropriate cost of funding and the future expected cashflows used in this funding valuation adjustment (FVA).

Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities and are often thinly capitalised with a reliance on debt financing for support.

The Banking Group assesses, at inception and periodically, whether a structured entity should be consolidated based on the accounting policy outlined in note 1. Such assessments are predominantly securitisation activities and involvement with managed funds. When assessing whether the Banking Group controls (and therefore consolidates) a structured entity, judgement is required about whether the Banking Group has power over the relevant activities as well as exposure to variable returns of the structured entity. All involvement, rights and exposure to returns are considered when assessing if control exists.

The Banking Group is deemed to have power over a managed fund when it performs the function of Manager of that managed fund. Whether the Banking Group controls the managed fund depends on whether it holds that power as principal, or as an agent for other investors. The Banking Group is considered the principal, and thus controls the managed fund, when it cannot be easily removed from the position of Manager by other investors and has variable returns through significant aggregate economic interest in that managed fund. In all other cases the Banking Group is considered to be acting in an agency capacity and does not control the managed fund.

Structured entities are consolidated when control exists. In other cases the Banking Group may simply have an interest in or may sponsor a structured entity but not consolidate it.

The Banking Group considers itself the sponsor of an unconsolidated structured entity where it is the primary party involved in the design and establishment of that structured entity and:

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

Goodwill

Refer to note 24 for details of goodwill held by the Banking Group.

The carrying value of goodwill is subject to an impairment test to ensure that the current carrying value does not exceed its recoverable value at the balance sheet date. Any excess of carrying value over recoverable amount is taken to the income statement as an impairment write down.

Goodwill has been allocated for impairment purposes to the cash generating units at which the goodwill is monitored for internal reporting purposes. Impairment testing of purchased goodwill is performed by comparing the recoverable value of each cash generating unit with the current carrying amount of its net assets, including goodwill. Judgement is required in identifying the cash-generating units to which goodwill and other assets are allocated for the purpose of impairment testing.

The recoverable amount is based on value-in-use calculations. These calculations use cash flow projections based on a number of financial budgets within each segment approved by management covering a three year period. Cash flow projections are based on a range of readily available economic assumptions including GDP and CPI. Cash flows beyond the three year period are extrapolated using a 3% growth rate.

These cash flow projections are discounted using a capital asset pricing model. As at 28 February 2015 when the last valuation was prepared, a discount rate of 10.05% was applied to each cash generating unit. The main variables in the calculation of the discount rate used are the risk free rate, the beta rate and the market risk premium. The risk free rate is based on the 10 year Government Bond Rate. The beta rate and the market risk premium are consistent with observable and comparative market rates applied in the regional banking sector. Market observable information is not readily available at the segment level therefore management performed stress tests for key sensitivities in each segment.

Management believes any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the Banking Group's carrying amount to exceed its recoverable amount.

Notes to the Financial Statements

3. Income

NZ$ millions	Year to 30/09/2015	Year to 30/09/2014
Interest income		
Financial assets at fair value through profit or loss		
Trading securities	488	474
Financial assets not at fair value through profit or loss		
Cash	94	72
Available-for-sale assets	37	33
Net loans and advances	6,277	5,677
Other	30	16
	6,438	5,798
Total interest income	6,926	6,272
Net trading gains		
Net gain on foreign exchange trading	201	157
Net gain on trading securities	384	57
Net loss on trading derivatives	(323)	(4)
Net trading gains	262	210
Net funds management and insurance income		
Net funds management income	165	139
Net insurance income	220	186
Total funds management and insurance income	385	325
Other operating income		
Lending and credit facility fee income	54	55
Other fee income	614	569
Total fee income	668	624
Direct fee expense	(264)	(216)
Net fee income	404	408
Net loss on financial liabilities designated at fair value	(1)	-
Net ineffectiveness on qualifying fair value hedges	(8)	1
Net gain / (loss) on derivatives not qualifying for hedge accounting	57	(7)
Net cash flow hedge gain transferred to income statement	16	41
Insurance settlement proceeds	-	91
Gain / (loss) on sale of mortgages to NZ Branch	1	(23)
Other income	54	36
Total other operating income	523	547

Notes to the Financial Statements

4. Expenses

NZ$ millions	Year to 30/09/2015	Year to 30/09/2014
Interest expense		
Financial liabilities at fair value through profit or loss		
Commercial paper	**280**	229
Financial liabilities not at fair value through profit or loss		
Deposits and other borrowings	**2,772**	2,425
Debt issuances	**855**	791
Subordinated debt	**112**	57
Other	**32**	27
	3,771	3,300
Total interest expense	**4,051**	3,529
Operating expenses		
Personnel costs	**733**	716
Employee entitlements	**88**	69
Superannuation costs	**31**	38
Share-based payments expense	**22**	22
Building occupancy costs	**42**	41
Depreciation of premises and equipment	**50**	55
Leasing and rental costs	**80**	78
Technology expenses	**151**	137
Amortisation of software and other intangible assets	**35**	30
Administrative expenses	**162**	170
Charges from Ultimate Parent Bank	**64**	81
Other costs	**54**	52
Total operating expenses	**1,512**	1,489

Notes to the Financial Statements

5. Income Tax

NZ$ millions	Year to 30/09/2015	Year to 30/09/2014
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	**2,464**	2,355
Prima facie income tax at 28%	**690**	659
Imputed and non-assessable dividends	**(3)**	(3)
Change in tax provisions	**-**	(10)
Non assessable income and non deductible expenditure	**(6)**	(8)
Income tax under provided in prior years	**-**	1
Total income tax expense	**681**	639
Effective tax rate (%)	**27.6%**	27.1%
Amounts recognised in the income statement		
Current tax	**607**	531
Deferred tax	**74**	108
Total income tax expense recognised in the income statement	**681**	639
Imputation credits available	**2,989**	2,341

The Bank is a member of an imputation group and can access imputation credits of the imputation group. The imputation credit balance for the Bank is the imputation credit balance of this imputation group. The imputation credit balance for the Banking Group includes the imputation credit balance in relation to both the imputation group and other companies in the the Banking Group that are not in the 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.

NZ$ millions	30/09/2015	30/09/2014
Deferred tax assets / (liabilities) comprise the following temporary differences:		
Provision for credit impairment	**171**	186
Premises and equipment, software and intangibles	**(8)**	2
Provisions and accruals	**60**	61
Insurance policy assets	**(146)**	(127)
Financial instruments	**4**	3
Carried forward losses	**-**	9
Lease finance	**(203)**	(191)
Other deferred tax assets and liabilities (including tax provisions)	**(2)**	(3)
Net deferred tax liabilities[1]	**(124)**	(60)

[1] Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same income tax authority on either the same taxable entity or different taxable entities within the same taxable group.

Notes to the Financial Statements

6. Segment Analysis

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

During the year ended 30 September 2015, Business Banking was integrated with Retail, having been included in Commercial previously. Segment reporting has been updated to reflect this change and other minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current year's segment definitions.

Retail

Retail provides products and services to Retail and Business Banking customers via the branch network, mortgage specialists, business managers, the contact centre and a variety of self service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Retail customers have personal banking requirements and Business Banking customers consist primarily of small enterprises with annual revenues of less than NZ$5 million. Core products include current and savings accounts, unsecured lending (credit cards, personal and business loans and overdrafts) and home and business loans secured by mortgages over property. The Retail segment distributes insurance and investment products on behalf of the Wealth segment.

Commercial

Commercial provides services to Commercial & Agri (CommAgri) and UDC customers. CommAgri customers consist of primarily privately owned medium to large enterprises. Commercial's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is principally involved in the financing and leasing of plant, vehicles and equipment, mainly for small and medium sized businesses, as well as investment products.

Wealth

Wealth comprises the Private Wealth, Funds Management and Insurance businesses, which provide private banking, investment, superannuation and insurance products and services.

Institutional

Institutional provides financial services through a number of specialised units to large multi-banked corporations, often global, which require sophisticated product and risk management solutions. Those financial services include loan structuring, foreign exchange, wholesale money market services and transaction banking.

Other

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

Notes to the Financial Statements

Business segment analysis[1]

NZ$ millions	Retail	Commercial	Wealth[2]	Institutional	Other	Total
30/09/2015						
External interest income	**3,362**	**2,441**	**112**	**1,002**	**9**	**6,926**
External interest expense	**(1,697)**	**(388)**	**(208)**	**(498)**	**(1,260)**	**(4,051)**
Net intersegment interest	**(167)**	**(1,149)**	**164**	**(200)**	**1,352**	**-**
Net interest income	**1,498**	**904**	**68**	**304**	**101**	**2,875**
Other external operating income	**403**	**17**	**255**	**360**	**135**	**1,170**
Share of associates' profit	**3**	**-**	**-**	**-**	**2**	**5**
Operating income	**1,904**	**921**	**323**	**664**	**238**	**4,050**
Operating expenses	**880**	**257**	**144**	**189**	**42**	**1,512**
Profit before credit impairment and income tax	**1,024**	**664**	**179**	**475**	**196**	**2,538**
Credit impairment charge	**56**	**-**	**-**	**18**	**-**	**74**
Profit before income tax	**968**	**664**	**179**	**457**	**196**	**2,464**
Income tax expense	**271**	**186**	**43**	**126**	**55**	**681**
Profit after income tax	**697**	**478**	**136**	**331**	**141**	**1,783**
Other information						
Depreciation and amortisation	**15**	**-**	**5**	**-**	**65**	**85**
Goodwill	**929**	**1,052**	**180**	**1,072**	**-**	**3,233**
Other intangible assets	**13**	**-**	**125**	**-**	**121**	**259**
Investment in associates	**4**	**-**	**-**	**-**	**-**	**4**
Total external assets	**58,480**	**40,561**	**2,887**	**43,909**	**1,690**	**147,527**
Total external liabilities	**53,734**	**12,390**	**5,866**	**37,116**	**25,968**	**135,074**
30/09/2014						
External interest income	2,954	2,230	99	978	11	6,272
External interest expense	(1,430)	(327)	(206)	(475)	(1,091)	(3,529)
Net intersegment interest	(124)	(1,045)	165	(177)	1,181	-
Net interest income	1,400	858	58	326	101	2,743
Other external operating income	395	18	318	299	52	1,082
Share of associates' profit	1	-	-	-	2	3
Operating income	1,796	876	376	625	155	3,828
Operating expenses	871	252	136	182	48	1,489
Profit before credit impairment and income tax	925	624	240	443	107	2,339
Credit impairment charge / (release)	56	(72)	(1)	1	-	(16)
Profit before income tax	869	696	241	442	107	2,355
Income tax expense	243	195	60	122	19	639
Profit after income tax	626	501	181	320	88	1,716
Other information						
Depreciation and amortisation	17	2	5	-	61	85
Goodwill	929	1,052	180	1,072	-	3,233
Other intangible assets	22	-	126	-	73	221
Investment in associates	3	-	-	-	85	88
Total external assets	52,381	37,785	2,531	34,728	1,490	128,915
Total external liabilities	47,088	10,936	5,316	28,861	24,933	117,134

1 Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.
2 Wealth other external operating income for the year ended 30 September 2014 includes the NZ$91 million insurance settlement relating to the Bank's former involvement in the ING Diversified Yield Fund and the ING Regular Income Fund.

Notes to the Financial Statements

7. Notes to the Cash Flow Statement

NZ$ millions	Year to 30/09/2015	Year to 30/09/2014
Reconciliation of profit after income tax to net cash flows provided by operating activities		
Profit after income tax	**1,783**	1,716
Non-cash items:		
Depreciation and amortisation	**85**	85
Provision for credit impairment	**74**	(16)
Deferred fee revenue and expenses	**(3)**	(4)
Amortisation of capitalised brokerage / mortgage origination fees	**123**	66
Amortisation of premiums and discounts	**60**	152
Fair value gains and losses	**(263)**	(222)
Loss on disposal and impairment of premises and equipment and intangibles	**1**	16
Deferrals or accruals of past or future operating cash receipts or payments:		
Change in net operating assets less liabilities	**(1,498)**	(536)
Change in interest receivable	**-**	(52)
Change in interest payable	**(9)**	32
Change in accrued expenses	**13**	(25)
Change in provisions	**(13)**	(25)
Change in life insurance policy assets	**(79)**	(67)
Change in other receivables and payables	**2**	(15)
Change in net income tax assets / liabilities	**94**	171
Dividends from associates in excess of share of profits	**84**	1
Net cash flows provided by operating activities	**454**	1,277

NZ$ millions	30/09/2015	30/09/2014
Reconciliation of cash and cash equivalents to the balance sheet		
Cash	**2,380**	1,822
Amounts included in settlement balances receivable / (payable):		
Nostro accounts	**108**	38
Overdrawn nostro accounts	**(17)**	(30)
Total cash and cash equivalents	**2,471**	1,830

8. Cash

NZ$ millions	30/09/2015	30/09/2014
Coins, notes and cash at bank	**195**	204
Balances with central banks	**1,847**	1,309
Securities purchased under agreements to resell	**338**	309
Total cash	**2,380**	1,822

Notes to the Financial Statements

9. Trading Securities

NZ$ millions	30/09/2015	30/09/2014
Government, local body stock and bonds	**6,355**	6,607
Certificates of deposit	**190**	378
Promissory notes	**259**	91
Reserve Bank bills	**200**	-
Other bank bonds	**5,077**	4,630
Other	**58**	44
Total trading securities	**12,139**	11,750

10. Derivative Financial Instruments

The use of derivatives and their sale to customers as risk management products is an integral part of the Banking Group's trading activities. Derivatives are also used to manage the Banking Group's own exposure to fluctuations in exchange and interest rates as part of its own asset and liability management activities.

Derivatives are subject to the same types of credit and market risk as other financial instruments and the Banking Group manages these risks in a consistent manner.

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading.

Derivatives held for trading

The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for the Banking Group's balance sheet risk management.

Trading positions

Trading positions consist of both sales to customers and market making activities. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Market making activities consist of derivatives entered into principally for the purpose of generating profits from short-term fluctuations in price or margins. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Balance sheet risk management

The Banking Group designates certain balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions as some balance sheet risk management derivatives are classified as held for trading.

Notes to the Financial Statements

NZ$ millions	30/09/2015 Notional principal amount	30/09/2015 Fair values Assets	30/09/2015 Fair values Liabilities	30/09/2014 Notional principal amount	30/09/2014 Fair values Assets	30/09/2014 Fair values Liabilities
Derivatives held for trading						
Foreign exchange derivatives						
Spot and forward contracts	**76,319**	**1,625**	**1,339**	64,229	1,464	1,234
Swap agreements	**123,744**	**2,886**	**3,559**	146,852	5,368	4,950
Options purchased	**1,870**	**79**	**3**	2,528	47	1
Options sold	**1,820**	**2**	**46**	2,381	1	36
	203,753	**4,592**	**4,947**	215,990	6,880	6,221
Interest rate derivatives						
Forward rate agreements	**24,743**	**2**	**12**	9,514	2	1
Swap agreements	**1,140,894**	**12,421**	**11,479**	694,051	4,180	3,782
Futures contracts	**45,407**	**12**	**19**	17,930	2	5
Options purchased	**1,218**	**5**	**-**	1,607	2	-
Options sold	**827**	**1**	**2**	840	1	3
	1,213,089	**12,441**	**11,512**	723,942	4,187	3,791
Commodity derivatives	**235**	**29**	**29**	346	22	21
Total derivatives held for trading	**1,417,077**	**17,062**	**16,488**	940,278	11,089	10,033
Derivatives in hedging relationships						
Fair value hedges						
Foreign exchange swap agreements	**-**	**-**	**-**	17	-	-
Interest rate swap agreements	**30,230**	**230**	**375**	20,044	219	64
	30,230	**230**	**375**	20,061	219	64
Cash flow hedges						
Interest rate swap agreements	**21,715**	**366**	**367**	18,866	96	108
Total derivatives in hedging relationships	**51,945**	**596**	**742**	38,927	315	172
Total derivative financial instruments	**1,469,022**	**17,658**	**17,230**	979,205	11,404	10,205

Derivatives in hedging relationships

Fair value hedges

The Banking Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

Gain / (loss) on fair value hedges attributable to the hedged risk

NZ$ millions	30/09/2015	30/09/2014
Gain / (loss) arising from fair value hedges:		
- hedged item	**143**	(41)
- hedging instrument	**(151)**	42
Net ineffectiveness on qualifying fair value hedges	**(8)**	1

Cash flow hedges

The Banking Group's cash flow hedges comprise interest rate swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their forecast repricing profile. This forms the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges.

Analysis of the cash flow hedging reserve

NZ$ millions	30/09/2015	30/09/2014
Deferred gain / (loss) attributable to hedges of:		
Variable rate loan assets	**187**	(29)
Short term re-issuances of fixed rate customer and wholesale deposit liabilities	**(197)**	22
Total cash flow hedging reserve	**(10)**	(7)

All underlying hedged cash flows are expected to be recognised in the income statement in the period in which they occur, which is anticipated to take place over the next ten years (30/09/2014 ten years).

Notes to the Financial Statements

11. Available-for-sale Assets

NZ$ millions	30/09/2015	30/09/2014
Government, local body stock and bonds	270	522
Reserve Bank bills	599	-
Other debt securities	557	248
Equity securities	2	2
Total available-for-sale assets	1,428	772

12. Net Loans and Advances

NZ$ millions	Note	30/09/2015	30/09/2014
Overdrafts		1,638	1,744
Credit card outstandings		1,688	1,580
Term loans - housing		59,428	52,717
Term loans - non-housing		42,880	39,622
Lease receivables		236	277
Hire purchase		946	837
Other		-	125
Total gross loans and advances		106,816	96,902
Less: Provision for credit impairment	13	(611)	(666)
Less: Unearned income		(214)	(212)
Add: Capitalised brokerage/mortgage origination fees		314	208
Add: Customer liability for acceptances		52	67
Total net loans and advances		106,357	96,299

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ$8,011 million as at 30 September 2015 (30/09/2014 NZ$9,176 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

Notes to the Financial Statements

13. Provision for Credit Impairment

Credit impairment charge / (release)

NZ$ millions	30/09/2015 Retail mortgages	30/09/2015 Other retail exposures	30/09/2015 Non-retail exposures	30/09/2015 Total	30/09/2014 Retail mortgages	30/09/2014 Other retail exposures	30/09/2014 Non-retail exposures	30/09/2014 Total
New and increased provisions	31	107	76	214	50	120	111	281
Write-backs	(39)	(19)	(59)	(117)	(44)	(21)	(112)	(177)
Recoveries of amounts written off previously	(1)	(20)	(8)	(29)	(2)	(20)	(7)	(29)
Individual credit impairment charge / (release)	(9)	68	9	68	4	79	(8)	75
Collective credit impairment charge / (release)	(1)	9	(2)	6	(23)	1	(69)	(91)
Credit impairment charge / (release)	(10)	77	7	74	(19)	80	(77)	(16)

Movement in provision for credit impairment

NZ$ millions	30/09/2015 Retail mortgages	30/09/2015 Other retail exposures	30/09/2015 Non-retail exposures	30/09/2015 Total	30/09/2014 Retail mortgages	30/09/2014 Other retail exposures	30/09/2014 Non-retail exposures	30/09/2014 Total
Collective provision								
Balance at beginning of the year	78	118	255	451	101	117	324	542
Charge / (release) to income statement	(1)	9	(2)	6	(23)	1	(69)	(91)
Balance at end of the year	77	127	253	457	78	118	255	451
Individual provision								
Balance at beginning of the year	72	15	128	215	74	22	188	284
New and increased provisions net of write-backs	(8)	88	17	97	6	99	(1)	104
Bad debts written off	(4)	(94)	(54)	(152)	(3)	(106)	(67)	(176)
Discount unwind reversal / (discount unwind)[1]	(6)	-	-	(6)	(5)	-	8	3
Balance at end of the year	54	9	91	154	72	15	128	215
Total provision for credit impairment	131	136	344	611	150	133	383	666

[1] The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

Impaired assets

NZ$ millions	30/09/2015 Retail mortgages	30/09/2015 Other retail exposures	30/09/2015 Non-retail exposures	30/09/2015 Total	30/09/2014 Retail mortgages	30/09/2014 Other retail exposures	30/09/2014 Non-retail exposures	30/09/2014 Total
Balance at beginning of the year	189	35	410	634	179	49	673	901
Transfers from productive	89	126	155	370	178	138	299	615
Transfers to productive	(69)	(7)	(46)	(122)	(41)	(4)	(153)	(198)
Assets realised or loans repaid	(108)	(28)	(212)	(348)	(124)	(42)	(342)	(508)
Write offs	(4)	(94)	(54)	(152)	(3)	(106)	(67)	(176)
Total impaired assets	97	32	253	382	189	35	410	634
Undrawn facilities with impaired customers	1	-	14	15	1	-	38	39

Notes to the Financial Statements

14. Deposits and Other Borrowings

NZ$ millions	Note	30/09/2015	30/09/2014
Certificates of deposit		**745**	1,376
Term deposits		**34,982**	34,758
Other deposits bearing interest and other borrowings		**41,436**	34,027
Deposits not bearing interest		**6,716**	6,001
Deposits from banks		**47**	226
Commercial paper		**4,964**	6,057
UDC secured investments	20	**1,736**	1,569
Deposits from other members of ANZ New Zealand	31	**52**	5
Total deposits and other borrowings		**90,678**	84,019

Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

15. Debt Issuances

NZ$ millions	Note	30/09/2015	30/09/2014
Domestic bonds		**3,525**	3,250
U.S. medium term notes[1]		**6,831**	4,934
Euro medium term notes[1]		**3,598**	4,774
Covered bonds[1]	20, 30	**5,335**	3,928
Index linked notes		**35**	35
Total debt issuances		**19,324**	16,921
Fair value hedge adjustment		**175**	129
Less debt issuances held by the Bank		**(96)**	(8)
Total debt issuances		**19,403**	17,042

Debt issuances, other than covered bonds, are unsecured and rank equally with other unsecured liabilities of the Banking Group.

[1] These debt issuances are issued by ANZ New Zealand (Int'l) Limited and are guaranteed by the Bank.

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16. Subordinated Debt

NZ$ millions	30/09/2015	30/09/2014
ANZ Capital Notes[1]		
NZD1,003m ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)	1,003	-
NZD 500m ANZ New Zealand Capital Notes (ANZ NZ CN)[2]	494	-
Perpetual subordinated debt		
NZD 835m perpetual subordinated bond[2,3]	835	835
AUD 266m perpetual subordinated floating rate loan[3,4]	-	298
AUD 10m perpetual subordinated floating rate loan	11	11
Total subordinated debt	2,343	1,144

[1] These instruments qualify as additional tier 1 capital.
[2] These instruments are listed on the New Zealand Debt Market (NZDX). The Market Surveillance Panel of the NZX granted the Bank a waiver from the requirements of Listing Rules 10.3 (relating to the provision of preliminary announcements of half yearly and annual results to the NZX) and 10.4 (relating to preparing and providing a copy of half yearly and annual reports to the NZX).
[3] These instruments qualify as tier 2 capital under RBNZ's transitional rules. Refer to note 28 for further details.
[4] This loan was repaid on 16 March 2015. Interest was payable semi-annually in arrears based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 95 basis point margin.

Subordinated debt is subordinated in right of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the Bank.

ANZ Capital Notes

- On 5 March 2015, the Bank issued 10.0 million convertible notes (ANZ NZ ICN) to the NZ Branch at NZ$100 each, raising NZ$1,003 million.
- On 31 March 2015, the Bank issued 500 million convertible notes (ANZ NZ CN) at NZ$1 each, raising NZ$500 million before issue costs.

ANZ Capital Notes (the notes) are fully paid mandatorily convertible non-cumulative perpetual subordinated notes.

As at 30 September 2015, ANZ NZ CN carried a BBB- credit rating from Standard and Poor's.

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

Interest

Interest on the notes is non-cumulative and payable as follows:

- ANZ NZ ICN: payable semi-annually in arrears in March and September in each year. The interest rate is based on a floating rate equal to the aggregate of the New Zealand 6 month bank bill rate plus a 380 basis point margin.
- ANZ NZ CN: payable quarterly in arrears in February, May, August and November in each year. The interest rate is fixed at 7.2% per annum until 25 May 2020, and thereafter will be based on a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus a 350 basis point margin.

Interest payments are subject to the Bank's absolute discretion and certain payment conditions being satisfied (including RBNZ and APRA (ANZ NZ CN only) requirements). If interest is not paid on the notes the Bank may not, except in limited circumstances, pay dividends or undertake a share buy-back or other capital reduction on its ordinary shares until interest is next paid.

Conversion features

On 24 March 2025 (ANZ NZ ICN) or 25 May 2022 (ANZ NZ CN) or an earlier date under certain circumstances, the relevant notes will mandatorily 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); or
- Ultimate Parent Bank based on the average market price of the Ultimate Parent Bank's ordinary shares over a specified period prior to conversion less a 1% discount, subject to a maximum conversion number (ANZ NZ CN).

The mandatory conversion will be deferred for a specified period if the conversion tests are not met.

The Bank may be required to convert some or all of the notes if a common equity capital trigger event, or an RBNZ or APRA (ANZ NZ CN only) non-viability trigger event occurs. The ANZ ICN will convert into ordinary shares of the Bank and the ANZ CN will convert into ordinary shares of the Ultimate Parent Bank, subject to a maximum conversion number.

A common equity capital trigger event occurs if the:

- Banking Group's common equity tier 1 capital ratio is equal to or less than 5.125%; or
- Overseas Banking Group's Level 2 common equity tier 1 capital ratio is equal to or less than 5.125% (ANZ CN only).

An RBNZ non-viability trigger event occurs if the RBNZ directs the Bank to convert or write off the notes or a statutory manager is appointed to the Bank and decides the Bank must convert or write off the notes. An APRA non-viability trigger event occurs if APRA notifies the Ultimate Parent Bank that, without the conversion or write-off of certain securities or a public sector injection of capital (or equivalent support), it considers that the Ultimate Parent Bank would become non-viable.

Notes to the Financial Statements

On 25 May 2020 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's and APRA's prior approval), or to convert into ordinary shares of the Ultimate Parent Bank, all or some of the ANZ NZ CN at its discretion on similar terms as mandatory conversion.

On 24 March 2023 the Bank has the right, subject to satisfying certain conditions, to redeem (subject to receiving RBNZ's prior approval), or to convert into ordinary shares of the Bank, all or some of the ANZ NZ ICN at its discretion on similar terms as mandatory conversion.

Rights of holders in event of liquidation

The notes rank equally with each other and with the Bank's preference shares and lower than perpetual subordinated debt. Holders of the notes do not have any right to vote in general meetings of the Bank.

Perpetual subordinated debt

Perpetual subordinated debt instruments are classified as debt reflecting an assessment of the key terms and conditions of the instruments, and an assessment of the ability, and likelihood of interest payments being deferred. Certain of these instruments have interrelationships that have been considered in this assessment.

NZD 835,000,000 bond

This bond was issued by the Bank on 18 April 2008.

The Bank may elect to redeem the bond on 18 April 2018 (the Call Date) or any interest payment date subsequent to 18 April 2018. Interest is payable semi-annually in arrears on 18 April and 18 October each year, up to and including the Call Date and then quarterly thereafter. Should the bond not be called at the Call Date, the Coupon Rate from the Call Date onwards will be based on a floating rate equal to the aggregate of the 3 month bank bill rate plus a 300 basis point margin.

As at 30 September 2015, this bond carried a BBB+ rating by Standard and Poor's and an A3 rating by Moody's.

The coupon interest on the bond is 5.28% per annum until 18 April 2018.

AUD 10,000,000 loan

This loan was drawn down by the Bank on 27 March 2013 and has no fixed maturity. Interest is payable semi-annually in arrears on 15 March and 15 September each year. The Bank may repay the loan on any interest payment date after the NZD 835,000,000 bond has been repaid in full.

Coupon interest is based on a floating rate equal to the aggregate of the Australian 6 month bank bill rate plus a 240 basis point margin, increasing to the Australian 6 month bank bill rate plus a 440 basis point margin from 15 September 2018.

Notes to the Financial Statements

17. Financial Risk Management

Strategy in using financial instruments

Financial instruments are fundamental to the Banking Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Banking Group. Financial instruments create, modify or reduce the credit, market and liquidity risks of the Banking Group's balance sheet. The Banking Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Banking Group.

The risk management and policy control framework applicable to the entities comprising the Banking Group has been set by the Board and Risk Committee of the Bank or the Ultimate Parent Bank, as appropriate. Likewise oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Bank and also the Ultimate Parent Bank. Throughout this document, references to the Risk Management of the operations within the entities comprising the Banking Group, implicitly involves oversight by both related entities.

Credit risk

Credit risk is the risk of financial loss from counterparties being unable to fulfil their contractual obligations. The Banking Group assumes credit risk in a wide range of lending and other activities in diverse markets and many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

The Banking Group has an overall lending objective of sound growth for appropriate returns. The credit risk objectives of the Banking Group are set by the Board and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including business writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations.

Credit risk management

A credit risk management framework is in place across the Banking Group with the aim of ensuring a structured and disciplined approach is maintained in achieving the objectives set by the Board. The framework focuses on policies, people, skills, controls, risk concentrations and portfolio balance. It is supported by portfolio analysis and business-writing strategies, which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

An independent Risk Management function is staffed by risk specialists. In regard to credit risk management, the objective is for Risk Management to provide robust credit policies, to make independent credit decisions, and to provide strong support to front line staff in the application of sound credit practices. In addition to providing independent credit assessment on lending decisions, Risk Management also performs key roles in portfolio management by development and validation of credit risk measurement systems, loan asset quality reporting, and development of credit standards and policies.

The credit risk management framework is top down. The framework is defined by the Banking Group's credit principles and policies. The effectiveness of the credit risk management framework is validated through the compliance and monitoring processes.

Risk Management's responsibilities for credit risk policy and management are executed through dedicated departments, which support the business units. All major business unit credit decisions require approval from both business writers and independent risk personnel.

Credit risk is controlled through a combination of approvals, limits, reviews and monitoring procedures that are carried out on a regular basis, the frequency of which is dependent upon the level of risk. Credit risk policy and management is executed through the Chief Risk Officer, who is responsible for various dedicated areas within the Risk Management division. Wholesale Risk services the Banking Group's commercial, investment banking and rural lending activities through dedicated teams. Retail Risk services the Banking Group's small business and consumer customers. The Credit Reporting team within Risk Management provides an independent overview of credit risk across the Bank at a portfolio level. The Banking Group allows sole discretion for transaction approvals at the business unit level in both the retail and wholesale lending sectors, with larger transactions approved by Retail Risk and Wholesale Risk.

The credit risk review function within Global Internal Audit also provides a further independent check mechanism to ensure the quality of credit decisions. This includes providing independent periodic checks on asset quality and compliance with the agreed standards and policies across the Banking Group.

Country risk management

Some customer credit risks involve country risk, whereby actions or events at a national or international level could disrupt servicing of commitments. Country risk arises when payment or discharge of an obligation will, or could, involve the flow of funds from one country to another or involve transactions in a currency other than the domestic currency of the relevant country.

Country ratings are assigned to each country where the Banking Group incurs country risk and have a direct bearing on the Banking Group's risk appetite for each country. The country rating is determined through a defined methodology based around external ratings agencies' ratings and internal specialist opinion. It is also a key risk consideration in the Banking Group's capital pricing model for cross border flows.

The recording of country limits provides the Banking Group with a means to identify and control country risk. Country limits ensure that there is a country-by-country ceiling on exposures that involve country risk. They are recorded by time to maturity and purpose of exposure, e.g., trade, markets and project finance. Country limits are managed centrally by the Ultimate Parent Bank, through a global

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country risk exposure management system managed by a specialist unit within Institutional Risk.

Portfolio stress testing

Stress testing is integral to strengthening the predictive approach to Risk Management and is a key component to managing risk appetite and business writing strategies. It creates greater understanding of impacts on financial performance through modelling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro economic scenarios.

The Ultimate Parent Bank has a dedicated stress testing team that assists business and risk executives in the Banking Group to model and report periodically to management and the Board Risk Committee on a range of scenarios and stress tests.

Portfolio analysis and reporting

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies.

Businesses incurring credit risk undertake regular and comprehensive analysis of their credit portfolios. Issue identification and adherence to performance benchmarks are reported to Risk Management and business executives through a series of reports including monthly 'asset quality' reporting. This process is undertaken by or overseen by Risk Management ensuring an efficient and independent conduit exists to identify and communicate emerging credit issues to Banking Group executives and the Board.

Collateral management

Banking Group credit principles specify lending only what the counterparty has the capacity and ability to repay and the Banking Group sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (i.e., interest and capital repayments). Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. Banking Group policy sets out the types of acceptable collateral, including:

- Cash;
- Mortgages over property;
- Charges over business assets, e.g., premises, stock and debtors;
- Charges over financial instruments, e.g., debt securities and equities in support of trading facilities; and
- Financial guarantees.

In the event of customer default, any loan security is usually held as mortgagee in possession while action is taken to realise it. Therefore the Banking Group does not usually hold any real estate or other assets acquired through the enforcement of security.

The Banking Group uses ISDA Master Agreements to document derivatives' activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis. Further, it is the Banking Group's preferred practice to include all products covered by the ISDA in the Credit Support Annex (CSA) in order to achieve further credit exposure reduction. Under a CSA, collateral is passed between the parties, depending on the aggregate mark-to-market (positive or negative) of derivative trades between the two entities, to mitigate the market contingent counterparty risk inherent in the outstanding positions.

Concentrations of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Banking Group monitors its portfolios to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks. Risk Management, Business Unit executives and senior management monitor large exposure concentrations through a monthly list of the Banking Group's top corporate exposures. The ANZ Credit and Market Risk Committee and Board Risk Committee regularly review a comprehensive list of single customer concentration limits and customers' adherence to these limits.

Analyses of financial assets by industry sector are based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. Notes on the following tables:

1 Government and local authority includes exposures to government administration and defence, education and health and community services.
2 Other includes exposures to electricity, gas and water, communications and personal services.
3 Net loans and advances exclude individual and collective provisions for credit impairment held in respect of credit related commitments.
4 Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

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30/09/2015 NZ$ millions	Cash, settlements receivable and collateral paid	Trading securities and available-for-sale assets	Derivative financial instruments	Net loans and advances[3]	Other financial assets	Credit related commitments[4]	Total
Industry							
Agriculture	-	-	23	18,383	73	1,238	19,717
Forestry, fishing and mining	-	-	44	931	4	1,035	2,014
Business and property services	-	1	23	10,816	43	2,798	13,681
Construction	-	-	12	1,342	5	811	2,170
Entertainment, leisure and tourism	-	-	47	1,067	4	268	1,386
Finance and insurance	2,576	6,956	15,140	1,245	335	1,317	27,569
Government and local authority[1]	1,847	6,475	1,338	1,156	5	1,408	12,229
Manufacturing	-	31	417	3,470	14	1,993	5,925
Personal lending	-	-	-	61,374	245	19,316	80,935
Retail trade	-	-	18	2,008	8	1,012	3,046
Transport and storage	-	6	60	1,638	7	759	2,470
Wholesale trade	-	-	17	1,468	6	1,248	2,739
Other[2]	-	98	519	1,970	8	1,672	4,267
	4,423	13,567	17,658	106,868	757	34,875	178,148
Less: Provision for credit impairment	-	-	-	(514)	-	(97)	(611)
Less: Unearned income	-	-	-	(214)	-	-	(214)
Add: Capitalised brokerage/mortgage origination fees	-	-	-	314	-	-	314
Total financial assets	4,423	13,567	17,658	106,454	757	34,778	177,637
Geography							
New Zealand	2,527	8,673	3,671	104,178	748	34,595	154,392
Overseas	1,896	4,894	13,987	2,276	9	183	23,245
Total financial assets	4,423	13,567	17,658	106,454	757	34,778	177,637
30/09/2014							
Industry							
Agriculture	-	-	9	17,362	76	1,364	18,811
Forestry, fishing and mining	-	-	8	1,122	5	914	2,049
Business and property services	-	-	16	9,504	42	2,499	12,061
Construction	-	-	-	1,214	5	935	2,154
Entertainment, leisure and tourism	-	-	25	1,026	5	238	1,294
Finance and insurance	1,947	5,526	10,061	972	322	1,426	20,254
Government and local authority[1]	1,309	6,857	630	1,256	6	1,305	11,363
Manufacturing	-	25	177	3,030	13	2,067	5,312
Personal lending	-	-	-	54,751	241	15,106	70,098
Retail trade	-	-	20	2,029	9	968	3,026
Transport and storage	-	12	31	1,484	7	730	2,264
Wholesale trade	-	-	15	1,384	6	1,290	2,695
Other[2]	-	102	412	1,835	8	1,736	4,093
	3,256	12,522	11,404	96,969	745	30,578	155,474
Less: Provision for credit impairment	-	-	-	(561)	-	(105)	(666)
Less: Unearned income	-	-	-	(212)	-	-	(212)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	208	-	-	208
Total financial assets	3,256	12,522	11,404	96,404	745	30,473	154,804
Geography							
New Zealand	2,566	8,339	2,664	94,236	735	30,293	138,833
Overseas	690	4,183	8,740	2,168	10	180	15,971
Total financial assets	3,256	12,522	11,404	96,404	745	30,473	154,804

1 Government and local authority includes exposures to government administration and defence, education and health and community services.
2 Other includes exposures to electricity, gas and water, communications and personal services.
3 Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.
4 Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

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Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk for on and off balance sheet financial instruments before taking account of the financial effect of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation*.

The table also provides a quantification of the value of the financial charges the Banking Group holds over a borrower's specific asset (or assets) where the Banking Group is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where the collateral held is valued at more than the corresponding credit exposure, the financial effect is capped at the value of the credit exposure. In respect of derivative financial instruments, the assessed collateral is the amount of cash collateral received and does not include the effect of any netting arrangements under ISDAs.

The most common types of collateral include:

- Security over real estate including residential, commercial, industrial and rural property;
- Cash deposits; and
- Other security over business assets including specific plant and equipment, inventory and accounts receivables.

The Banking Group also manages its credit risk by accepting other types of collateral such as guarantees and security interests over the assets of a customer's business. The assignable value of such credit mitigants is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

	30/09/2015			30/09/2014		
NZ$ millions	**Maximum exposure to credit risk**	**Financial effect of collateral**	**Unsecured portion of credit exposure**	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure
On and off-balance sheet positions						
Cash	**2,185**	**338**	**1,847**	1,618	309	1,309
Settlement balances receivable	**309**	**134**	**175**	855	746	109
Collateral paid	**1,929**	**-**	**1,929**	783	-	783
Trading securities	**12,139**	**-**	**12,139**	11,750	-	11,750
Derivative financial instruments	**17,658**	**1,687**	**15,971**	11,404	800	10,604
Available-for-sale assets	**1,428**	**-**	**1,428**	772	-	772
Net loans and advances	**106,454**	**95,560**	**10,894**	96,404	85,947	10,457
Other financial assets	**757**	**382**	**375**	745	380	365
Credit related commitments	**34,778**	**20,086**	**14,692**	30,473	15,340	15,133
Total exposure to credit risk	**177,637**	**118,187**	**59,450**	154,804	103,522	51,282

Credit quality

A core component of the Banking Group's credit risk management capability is the risk grading framework used across all major business units. A set of risk grading principles and policies is supported by a complementary risk grading methodology. Pronouncements by the International Basel Committee on Banking Supervision have been encapsulated in these principles and policies, including governance, validation and modelling requirements.

The Banking Group's risk grade profile changes dynamically through new counterparty lending and existing counterparty movements in either risk or volume. All counterparty risk grades are subject to frequent review, including statistical and behavioural reviews in consumer and small business segments, and individual counterparty reviews in segments with larger single name borrowers.

Impairment and provisioning of financial assets

The Banking Group's policy relating to the recognition and measurement of impaired assets conforms to the RBNZ's guidelines.

Loans are classified as either performing or impaired. Impaired assets are credit exposures where: there is doubt as to whether the full contractual amount (including interest) will be received; a material credit obligation is 90 days past due but not well secured; they are portfolio managed and can be held for up to 180 days past due; or concessional terms have been provided due to the financial difficulties of the customer.

An exposure is classified as past due but not impaired (less than 90 days) where the value of collateral is sufficient to repay both the principal debt and all other potential interest or there is no concern as to the creditworthiness of the counterparty in question.

The past due but not impaired (over 90 days) classification applies where contractual payments are past due by 90 days or more, or where the facility remains outside of contractual arrangements for 90 or more consecutive days, but the Banking Group believes that impairment is not appropriate on the basis of the level of security/collateral available, or the facility is portfolio managed.

The provision for credit impairment represents management's best estimate of the losses incurred in the loan portfolio at balance date based on its experienced judgement.

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Distribution of gross loans and advances assets by credit quality

The credit quality of the portfolio of loans and advances is assessed by reference to the Banking Group's risk grading principles and policies supported by a complementary risk grading methodology.

	30/09/2015				30/09/2014			
NZ$ millions	Retail mortgages	Other retail exposures	Non-retail exposures	Total	Retail mortgages	Other retail exposures	Non-retail exposures	Total
Strong risk rating	49,020	1,285	23,051	73,356	41,515	1,428	21,804	64,747
Satisfactory risk rating	6,754	3,021	19,192	28,967	7,530	2,721	17,040	27,291
Substandard but not past due or impaired	575	382	1,389	2,346	580	313	1,254	2,147
Total neither past due nor impaired	56,349	4,688	43,632	104,669	49,625	4,462	40,098	94,185
Past due but not impaired:								
1 to 5 days	297	110	454	861	342	121	580	1,043
6 to 29 days	188	92	99	379	198	91	190	479
1 to 29 days	485	202	553	1,240	540	212	770	1,522
30 to 59 days	101	37	88	226	133	31	116	280
60 to 89 days	73	18	11	102	63	16	52	131
90 days and over	103	32	62	197	88	30	32	150
Total past due but not impaired	762	289	714	1,765	824	289	970	2,083
Total impaired assets	97	32	253	382	189	35	410	634
Gross loans and advances	57,208	5,009	44,599	106,816	50,638	4,786	41,478	96,902

Credit quality of gross loans and advances neither past due nor impaired

The credit quality of financial assets is assessed by the Banking Group using internal ratings which aim to reflect the relative ability of counterparties to fulfil, on time, their credit-related obligations, and is based on their current probability of default.

Internal ratings

Strong risk rating - Corporate customers demonstrating superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events. Retail customers with low expected loss. This rating band broadly corresponds to ratings "Aaa" to "Ba1" and "AAA" to "BB+" of Moody's Investors Service and Standard & Poor's respectively.

Satisfactory risk rating - Corporate customers consistently demonstrating sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings. Retail customers with moderate expected loss. This rating band broadly corresponds to ratings "Ba2" to "B1" and "BB" to "B+" of Moody's Investors Service and Standard & Poor's respectively.

Substandard but not past due or impaired - Corporate customers demonstrating some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term. Retail customers with higher expected loss. This rating band broadly corresponds to ratings "B2" to "Caa" and "B" to "CCC" of Moody's Investors Service and Standard & Poor's respectively.

Movements in the rating categories between balance dates are due to both changes in the underlying internal ratings applied to customers and to new loans written or loans rolling off.

Credit quality of financial assets that are past due but not impaired

Ageing analysis of past due loans is used by the Banking Group to measure and manage credit quality. Financial assets that are past due but not impaired include those:

- Assessed, approved and managed on a portfolio basis within a centralised environment (for example, credit cards and personal loans);
- Held on a productive basis until they are 180 days past due; and
- Managed on an individual basis.

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

Notes to the Financial Statements

Market risk

Market risk is the risk to the Banking Group's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. Market risk is generated through both trading activities and the interest rate risk inherent in the banking book.

The Banking Group conducts trading operations in interest rates, foreign exchange, commodities and debt securities.

The Banking Group has a detailed risk management and control framework to support its trading and balance sheet management activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios. This approach, and related analysis, identifies the range of possible outcomes that can be expected over a given period of time, establishes the relative likelihood of those outcomes and allocates an appropriate amount of capital to support these activities.

Market risk management and control responsibilities

The Board Risk Committee has delegated responsibility for the oversight of market risk to the Asset & Liability Committee (ALCO), chaired by the Chief Financial Officer of the Bank. ALCO are required to ensure that market risk exposure across Traded and Non-Traded portfolios remains within the risk appetite specified by the Board Risk Committee. ALCO receive regular reporting on a range of trading and balance sheet market risk exposures.

The Risk Management division of the Banking Group, through the Chief Risk Officer, is responsible for the day-to-day oversight of market risk. This includes the implementation of a comprehensive limit and policy framework to control the amount of risk that the Banking Group will accept. Market risk limits are allocated at various levels and are reported and monitored on a daily basis. The detailed limit framework allocates individual limits to manage and control asset classes (e.g., interest rates, foreign exchange), risk factors (e.g., interest rates, volatilities) and profit and loss limits (to monitor and manage the performance of the trading portfolios).

Additional oversight and monitoring of material risk exposures of the Banking Group is undertaken by the Risk Management functions of the Ultimate Parent Bank.

Within overall strategies and policies, the control of market risk is the joint responsibility of business units and Risk Management, with the delegation of market risk limits from the Board Risk Committee to both Risk Management and the business units.

These risks are monitored daily against a comprehensive limit framework that includes Value at Risk, aggregate market position and sensitivity, product and geographic thresholds. To facilitate the management, control, measurements and reporting of market risk, the Banking Group has grouped market risk into two broad categories:

a. Traded market risk

This is the risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. They arise in trading transactions where the Banking Group acts as principal with clients or with the market. The principal risk categories monitored are:

- Currency risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.
- Interest rate risk is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- Credit spread risk is the potential loss arising from a change in value of an instrument due to a movement of its margin or spread relative to a bench mark.

b. Non-traded market risk (or balance sheet risk)

This comprises the management of non-traded interest rate risk, liquidity, and the risk to capital and earnings as a result of movements in market rates.

Some instruments do not fall into either category but also expose the Banking Group to market risk. These include equity securities classified as available-for-sale. Regular reviews are performed to substantiate the valuation of these types of instruments.

In all trading areas the Banking Group has implemented models that calculate Value at Risk ("VaR") exposures, monitor risk exposures against defined limits on a daily basis, and "stress test" trading portfolios.

VaR measure

A key measure of market risk is VaR. VaR is a statistical estimate of the likely daily loss and is based on historical market movements.

The confidence level is such that there is a 99% probability that the loss will not exceed the VaR estimate on any given day. Conversely there is 1% probability of the decrease in market value exceeding the VaR estimate on any given day.

The Banking Group's standard VaR approach for both traded and non-traded risk is historical simulation. The Banking Group calculates VaR using historical changes in market rates and prices over the previous 500 business days. Traded and Non-Traded VaR is calculated using a one-day holding period.

It should be noted that because VaR is driven by actual historical observations, it is not an estimate of the maximum loss that the Banking Group could experience from an extreme market event. As a result of this limitation, the Banking Group utilises a number of other risk measures (e.g. stress testing) and associated detailed control limits to measure and manage market risk.

Notes to the Financial Statements

Traded market risks

NZ$ millions	30/09/2015 Value at risk at 99% confidence Period end	High for year	Low for year	Average for year	30/09/2014 Value at risk at 99% confidence Period end	High for year	Low for year	Average for year
Foreign exchange risk	**0.6**	**1.1**	**-**	**0.3**	0.3	1.1	-	0.4
Interest rate risk	**2.4**	**5.1**	**1.0**	**2.1**	1.5	3.1	0.9	1.8
Credit spread risk	**0.7**	**0.7**	**0.2**	**0.4**	0.3	0.6	0.1	0.3
Diversification benefit	**(2.0)**	**n/a**	**n/a**	**(0.7)**	(0.6)	n/a	n/a	(0.7)
Total VaR	**1.7**	**4.9**	**1.0**	**2.1**	1.5	3.3	0.9	1.8

Traded market risk VaR is calculated separately for foreign exchange and for interest rate/debt markets businesses as well as for the Banking Group. The diversification benefit reflects the historical correlation between foreign exchange, interest rate and debt markets.

To supplement the VaR methodology, the Banking Group applies a wide range of stress tests, both on individual portfolios and at the Banking Group level. The Banking Group's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures of the Banking Group.

Non-traded market risk (or balance sheet risk)

The principal objectives of balance sheet management are to manage net interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of the Banking Group's capital. Liquidity risk is dealt with in the next section.

Interest rate risk

The objective of balance sheet interest rate risk management is to mitigate the negative impact of movements in wholesale interest rates on the earnings of the Banking Group's banking book. Non-traded interest rate risk relates to the potential adverse impact to earnings from changes in market interest rates. This risk arises from two principal sources: 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.

As part of normal business activity the Banking Group has additional risks from fixed rate mortgage prepayments and basis risk:

- Prepayment risk is the potential risk to earnings or market value from when a customer prepays all or part of a fixed rate mortgage and where any customer fee charged is not sufficient to offset the loss in value to the Banking Group of this financial asset due to movements in interest rates and other pricing factors. As far as possible the true economic cost is passed through to customers in line with their terms and conditions and relevant legislation.
- Basis risk is the potential risk to earnings or market value from differences between customer pricing and wholesale market pricing. This is managed through active review of product margins.

Non-traded interest rate risk is managed to both value and earnings at risk limits. Interest rate risk is reported using three measures: VaR; scenario analysis (to a 1% shock); and interest rate sensitivity gap. This treatment excludes the effect of prepayment and basis risk.

a. Non-traded interest rate risk VaR

NZ$ millions	Period end	High for year	Low for year	Average for year
30/09/2015				
Value at risk at 99% confidence	**7.4**	**12.4**	**7.3**	**10.1**
30/09/2014				
Value at risk at 99% confidence	10.7	10.7	8.0	8.9

Notes to the Financial Statements

b. Scenario analysis – a 1% shock on the next 12 months' net interest income

A 1% overnight parallel positive shift in the yield curve is modelled to determine the potential impact on net interest income over the succeeding 12 months. This is a standard risk quantification tool.

The figures in the table below indicate the outcome of this risk measure for the current and comparative periods – expressed as a percentage of reported net interest income. The sign indicates the nature of the rate sensitivity with a positive number signifying that a rate increase is positive for net interest income over the next 12 months. Conversely, a negative number signifies that a rate increase is negative for the next 12 months' net interest income.

	30/09/2015	30/09/2014
Impact of 1% rate shock		
Period end	**1.7%**	1.1%
Maximum exposure	**2.3%**	1.9%
Minimum exposure	**0.2%**	0.8%
Average exposure (in absolute terms)	**1.1%**	1.3%

The extent of mismatching between the repricing characteristics and timing of interest bearing assets and liabilities at any point has implications for future net interest income.

Interest rate sensitivity gap

The interest rate sensitivity gap analysis provides information about the Banking Group's exposure to interest rate risk.

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions.

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

The repricing gaps are based upon contractual repricing.

NZ$ millions	Total	Up to 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 2 years	Over 2 years	Not bearing interest
30/09/2015							
Assets							
Cash	**2,380**	**2,185**	**-**	**-**	**-**	**-**	**195**
Settlement balances receivable	**309**	**141**	**-**	**-**	**-**	**-**	**168**
Collateral paid	**1,929**	**1,929**	**-**	**-**	**-**	**-**	**-**
Trading securities	**12,139**	**1,280**	**731**	**789**	**863**	**8,476**	**-**
Derivative financial instruments	**17,658**	**-**	**-**	**-**	**-**	**-**	**17,658**
Available-for-sale assets	**1,428**	**1,178**	**-**	**-**	**-**	**248**	**2**
Net loans and advances	**106,357**	**57,459**	**6,373**	**15,238**	**19,900**	**7,844**	**(457)**
Other financial assets	**757**	**-**	**113**	**33**	**-**	**5**	**606**
Total financial assets	**142,957**	**64,172**	**7,217**	**16,060**	**20,763**	**16,573**	**18,172**
Liabilities							
Settlement balances payable	**1,844**	**871**	**-**	**-**	**-**	**-**	**973**
Collateral received	**1,687**	**1,687**	**-**	**-**	**-**	**-**	**-**
Deposits and other borrowings	**90,678**	**61,191**	**9,586**	**9,507**	**2,103**	**1,575**	**6,716**
Derivative financial instruments	**17,230**	**-**	**-**	**-**	**-**	**-**	**17,230**
Debt issuances	**19,403**	**6,001**	**1,587**	**-**	**2,498**	**9,317**	**-**
Subordinated debt	**2,343**	**-**	**1,014**	**-**	**-**	**1,329**	**-**
Other financial liabilities	**962**	**101**	**-**	**-**	**6**	**256**	**599**
Total financial liabilities	**134,147**	**69,851**	**12,187**	**9,507**	**4,607**	**12,477**	**25,518**
Hedging instruments	**-**	**34,623**	**(20,949)**	**(1,214)**	**(11,354)**	**(1,106)**	**-**
Interest sensitivity gap	**8,810**	**28,944**	**(25,919)**	**5,339**	**4,802**	**2,990**	**(7,346)**

Notes to the Financial Statements

NZ$ millions	Total	Up to 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 2 years	Over 2 years	Not bearing interest
30/09/2014							
Assets							
Cash	1,822	1,618	-	-	-	-	204
Settlement balances receivable	855	53	-	-	-	-	802
Collateral paid	783	783	-	-	-	-	-
Trading securities	11,750	1,388	304	1,631	418	8,009	-
Derivative financial instruments	11,404	-	-	-	-	-	11,404
Available-for-sale assets	772	262	10	250	-	248	2
Net loans and advances	96,299	54,390	6,201	10,603	16,408	9,148	(451)
Other financial assets	745	137	35	18	-	-	555
Total financial assets	124,430	58,631	6,550	12,502	16,826	17,405	12,516
Liabilities							
Settlement balances payable	2,296	512	-	-	-	-	1,784
Collateral received	800	800	-	-	-	-	-
Deposits and other borrowings	84,019	55,782	10,852	7,566	2,371	1,447	6,001
Derivative financial instruments	10,205	-	-	-	-	-	10,205
Debt issuances	17,042	5,149	267	1,971	2,811	6,844	-
Subordinated debt	1,144	-	309	-	-	835	-
Payables and other liabilities	833	131	-	10	6	146	540
Total financial liabilities	116,339	62,374	11,428	9,547	5,188	9,272	18,530
Hedging instruments	-	7,532	2,598	3,867	(11,308)	(2,689)	-
Interest sensitivity gap	8,091	3,789	(2,280)	6,822	330	5,444	(6,014)

Equity price risk

The portfolio of financial assets classified as available-for-sale contains equity investment holdings held for longer term strategic intentions. These equity investments are also subject to market risk which is not captured by the VaR measures for traded and non-traded market risks. The fair value of these securities as at 30 September 2015 was $2 million (30/09/2014 $2 million). A 10 per cent reduction in the value of the available-for-sale equity securities would not be material.

Foreign currency related risks

This risk relates to the potential loss arising from the decline in the value of foreign currency positions due to changes in foreign exchange rates.

For non-traded instruments in foreign currencies, the risk is monitored and is hedged in accordance with policy. Risk arising from individual funding and other transactions is actively managed. The total amounts of unmatched foreign currency assets and liabilities, and consequent foreign currency exposures arising from each class of financial asset and liability, whether recognised or unrecognised, within each currency are not material.

The net open position in each foreign currency represents the net on-balance sheet assets and liabilities in that foreign currency aggregated with the net expected future cash flows from off-balance sheet purchases and sales from foreign exchange transactions in that foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at balance sheet date.

NZ$ millions	30/09/2015	30/09/2014
Net open position		
Australian dollar	**(1)**	4
Euro	**(13)**	37
Japanese yen	**(4)**	9
US dollar	**34**	(14)
Swiss franc	**-**	(37)
Other	**6**	1
Total net open position	**22**	-

Notes to the Financial Statements

Liquidity risk

Liquidity risk is the risk that the Banking Group is unable to meet its payment obligations as they fall due. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Banking Group.

The Banking Group's liquidity and funding risks are governed by a detailed policy framework which is approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards. The core objective of the Banking Group's framework is to manage liquidity to meet obligations as they fall due, without incurring unacceptable losses.

Central to the Banking Group's liquidity risk management approach is the establishment of a liquidity risk appetite framework to which the Banking Group must conform at all times. The risk appetite for liquidity has been set as low, and this objective is achieved by the Banking Group managing liquidity risks within the boundaries of the following requirements and principles:

- Maintaining the ability to meet all payment obligations in the immediate term.
- Ensuring the ability to meet "survival horizons" under Banking Group specific and general market liquidity stress scenarios.
- Maintaining strength in the Banking Group's balance sheet structure to ensure long term resilience in the Banking Group's liquidity and funding risk profile.
- Limiting the potential earnings at risk associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Ensuring the liquidity management framework is compatible with regulatory requirements.
- Daily liquidity reporting and scenario analysis, quantifying the Banking Group's positions.
- Targeting a diversified funding base, avoiding 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.
- Establishing detailed contingency plans to cover different liquidity crisis events.

Management of liquidity and funding risks are overseen by ALCO.

Supervision and Regulation

The RBNZ requires the Bank to have a comprehensive Board approved liquidity strategy defining: policy, systems and procedures for measuring, assessing, reporting and managing domestic and foreign currency 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. Liquidity is assessed under different scenarios, including normal conditions, name crisis and funding market disruption.

Normal conditions: reflects the normal behaviour of cash flows in the ordinary course of business. The Banking Group must manage its short and long term wholesale funding to ensure there are no undue maturity concentrations within the wholesale funding profile over the following three months. Limits are applied within the three month period based on a combination of the Banking Group's demonstrated and assumed wholesale funding capacity.

Name-crisis: refers to a potential severe name-specific liquidity crisis scenario which models the behaviour of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the Banking Group, or adverse rating changes. Under this scenario the Banking Group may have significant difficulty rolling over or replacing funding. Under the liquidity policy the Banking Group must have sufficient high quality liquid assets to meet its liquidity needs for the following 30 calendar days under this scenario.

Funding market disruption: The global financial crisis highlighted the importance of differentiating between a name specific crisis and the different behaviour that domestic and offshore funding markets can exhibit during market disruption events. Under the liquidity policy, the Banking Group must be able to meet its wholesale maturities under a scenario of protracted stress in domestic and offshore wholesale funding markets over a period of six months.

As of 30 September 2015 the Banking Group was in compliance with the above scenarios.

Wholesale funding

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

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

Notes to the Financial Statements

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.

Funding Composition

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. This approach recognises that long-term wholesale debt and other sticky liabilities have favourable liquidity characteristics.

Analysis of funding liabilities by industry sector is based on Australian and New Zealand Standard Industrial Classification (ANZSIC) codes.

Funding composition

NZ$ millions	30/09/2015	30/09/2014
Customer deposits[1]		
New Zealand	**75,408**	67,759
Overseas	**9,462**	8,596
Total customer deposits	**84,870**	76,355
Wholesale funding		
Debt issuances	**19,403**	17,042
Subordinated debt	**2,343**	1,144
Certificates of deposit	**745**	1,376
Commercial paper	**4,964**	6,057
Other borrowings	**99**	231
Total wholesale funding	**27,554**	25,850
Total funding	**112,424**	102,205
Concentrations of funding by industry		
Agriculture	**2,871**	2,996
Forestry, fishing and mining	**656**	544
Business and property services	**6,304**	5,576
Construction	**1,283**	1,044
Entertainment, leisure and tourism	**1,021**	922
Finance and insurance	**35,331**	35,327
Government and local authority	**2,910**	2,434
Manufacturing	**1,913**	1,458
Households	**55,239**	47,600
Retail trade	**1,064**	994
Transport and storage	**745**	772
Wholesale trade	**1,312**	1,029
Other[2]	**1,775**	1,509
Total funding	**112,424**	102,205
Concentrations of funding by geography		
New Zealand	**81,635**	72,969
Australia	**1,016**	1,321
United States	**12,332**	11,518
Europe	**10,388**	10,464
Other countries	**7,053**	5,933
Total funding	**112,424**	102,205

1 Represents term deposits, other deposits bearing interest, deposits not bearing interest and UDC secured investments.
2 Other includes exposures to electricity, gas and water, communications and personal services.

Notes to the Financial Statements

Liquidity portfolio management

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

Total liquidity portfolio

NZ$ millions	30/09/2015	30/09/2014
Cash and balances with central banks	**2,069**	1,309
Certificates of deposit	**468**	159
Government, local body stock and bonds	**5,063**	6,318
Government treasury bills	**1,155**	380
Reserve Bank bills	**799**	-
Other bonds	**5,930**	5,135
Total liquidity portfolio	**15,484**	13,301

Assets held for managing liquidity risk include short term cash held with the RBNZ, New Zealand Government securities, securities issued by supranational agencies, securities issued by highly rated banks and securities issued by State Owned Enterprises, Local Authorities and highly rated NZ domestic corporates. These assets would be accepted as collateral by the RBNZ in repurchase transactions. At 30 September 2015 the Banking Group would be eligible to enter into repurchase transactions with a value of NZ$12,837 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$6,046 million at 30 September 2015.

Liquidity crisis contingency planning

The Banking Group maintains liquidity crisis contingency plans defining 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;
- guidelines determining the priority of customer relationships in the event of liquidity problems; and
- assigned responsibilities for internal and external communications.

Notes to the Financial Statements

Contractual maturity analysis of financial assets and liabilities

The following tables present the Banking Group's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Bank or the Banking Group may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows, except for derivatives held for trading where the full mark-to-market amount has been included in the less than three months category. As a result, the amounts in the tables below may differ to the amounts reported on the balance sheet.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the Banking Group or the Bank can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount, and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

The Banking Group does not manage its liquidity risk on this basis.

30/09/2015 NZ$ millions	Total	At call	Up to 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	No maturity specified
Financial assets							
Cash	2,380	2,041	339	-	-	-	-
Settlement balances receivable	309	140	169	-	-	-	-
Collateral paid	1,929	-	1,929	-	-	-	-
Trading securities	13,180	-	516	1,929	9,710	1,025	-
Derivative financial assets (trading)	16,432	-	16,432	-	-	-	-
Available-for-sale assets	1,454	-	1,078	11	363	-	2
Net loans and advances	141,418	252	15,399	16,397	49,731	59,639	-
Other financial assets	331	-	180	146	5	-	-
Total financial assets	177,433	2,433	36,042	18,483	59,809	60,664	2
Financial liabilities							
Settlement balances payable	1,803	1,188	615	-	-	-	-
Collateral received	1,687	-	1,687	-	-	-	-
Deposits and other borrowings	92,249	48,429	18,784	20,926	4,110	-	-
Derivative financial liabilities (trading)	14,700	-	14,700	-	-	-	-
Debt issuances	20,315	-	2,217	3,207	13,498	1,393	-
Subordinated debt	2,808	-	11	33	690	1,228	846
Other financial liabilities	547	-	176	9	107	255	-
Total financial liabilities	134,109	49,617	38,190	24,175	18,405	2,876	846
Derivative financial instruments used for balance sheet management							
- gross inflows	16,190	-	1,884	2,881	9,480	1,945	-
- gross outflows	(17,123)	-	(1,909)	(3,049)	(10,166)	(1,999)	-
Net financial assets / (liabilities) after balance sheet management	42,391	(47,184)	(2,173)	(5,860)	40,718	57,734	(844)

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Total	Less than 1 year	Beyond 1 year
Non-credit related commitments	514	59	455
Credit related commitments	32,421	32,421	-
Contingent liabilities	2,454	2,454	-
Total	35,389	34,934	455

Notes to the Financial Statements

30/09/2014 NZ$ millions	Total	At call	Up to 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	No maturity specified
Financial assets							
Cash	1,822	1,513	309	-	-	-	-
Settlement balances receivable	855	514	341	-	-	-	-
Collateral paid	783	-	783	-	-	-	-
Trading securities	13,325	-	818	2,491	8,172	1,844	-
Derivative financial assets (trading)	10,736	-	10,736	-	-	-	-
Available-for-sale assets	826	-	163	279	382	-	2
Net loans and advances	135,691	350	15,607	15,900	45,713	58,121	-
Other financial assets	319	-	266	53	-	-	-
Total financial assets	164,357	2,377	29,023	18,723	54,267	59,965	2
Financial liabilities							
Settlement balances payable	2,296	999	1,297	-	-	-	-
Collateral received	800	-	800	-	-	-	-
Deposits and other borrowings	85,550	40,270	20,109	20,913	4,258	-	-
Derivative financial liabilities (trading)	9,353	-	9,353	-	-	-	-
Debt issuances	17,935	-	1,014	3,184	13,116	621	-
Subordinated debt	1,754	-	14	42	241	313	1,144
Other financial liabilities	405	-	172	17	61	155	-
Total financial liabilities	118,093	41,269	32,759	24,156	17,676	1,089	1,144
Derivative financial instruments used for balance sheet management							
- gross inflows	15,953	-	2,700	2,884	9,485	884	-
- gross outflows	(15,957)	-	(2,617)	(2,840)	(9,600)	(900)	-
Net financial assets / (liabilities) after balance sheet management	46,260	(38,892)	(3,653)	(5,389)	36,476	58,860	(1,142)

Contractual maturity of off-balance sheet commitments and contingent liabilities

	Total	Less than 1 year	Beyond 1 year
Non-credit related commitments	483	102	381
Credit related commitments	28,142	28,142	-
Contingent liabilities	2,436	2,436	-
Total	31,061	30,680	381

Notes to the Financial Statements

18. Classification of Financial Instruments and Fair Value Measurements

NZ$ millions	At amortised cost	At fair value through profit or loss: Designated on initial recognition	At fair value through profit or loss: Held for trading	Hedging	Available-for-sale assets	Total carrying amount	Fair value
30/09/2015							
Cash	**2,380**	-	-	-	-	**2,380**	**2,380**
Settlement balances receivable	**309**	-	-	-	-	**309**	**309**
Collateral paid	**1,929**	-	-	-	-	**1,929**	**1,929**
Trading securities	-	-	**12,139**	-	-	**12,139**	**12,139**
Derivative financial instruments[1]	-	-	**17,062**	**596**	-	**17,658**	**17,658**
Available-for-sale assets	-	-	-	-	**1,428**	**1,428**	**1,428**
Net loans and advances[2]	**106,357**	-	-	-	-	**106,357**	**106,854**
Other financial assets	**606**	**151**	-	-	-	**757**	**757**
Total financial assets	**111,581**	**151**	**29,201**	**596**	**1,428**	**142,957**	**143,454**
Settlement balances payable	**1,844**	-	-	-	-	**1,844**	**1,844**
Collateral received	**1,687**	-	-	-	-	**1,687**	**1,687**
Deposits and other borrowings	**85,714**	**4,964**	-	-	-	**90,678**	**90,832**
Derivative financial instruments[1]	-	-	**16,488**	**742**	-	**17,230**	**17,230**
Debt issuances[2]	**19,403**	-	-	-	-	**19,403**	**19,516**
Subordinated debt	**2,343**	-	-	-	-	**2,343**	**2,288**
Other financial liabilities	**653**	-	**309**	-	-	**962**	**962**
Total financial liabilities	**111,644**	**4,964**	**16,797**	**742**	-	**134,147**	**134,359**
30/09/2014							
Cash	1,822	-	-	-	-	1,822	1,822
Settlement balances receivable	855	-	-	-	-	855	855
Collateral paid	783	-	-	-	-	783	783
Trading securities	-	-	11,750	-	-	11,750	11,750
Derivative financial instruments[1]	-	-	11,089	315	-	11,404	11,404
Available-for-sale assets	-	-	-	-	772	772	772
Net loans and advances[2]	96,299	-	-	-	-	96,299	96,397
Other financial assets	555	190	-	-	-	745	745
Total financial assets	100,314	190	22,839	315	772	124,430	124,528
Settlement balances payable	2,296	-	-	-	-	2,296	2,296
Collateral received	800	-	-	-	-	800	800
Deposits and other borrowings	77,962	6,057	-	-	-	84,019	84,042
Derivative financial instruments[1]	-	-	10,033	172	-	10,205	10,205
Debt issuances[2]	17,042	-	-	-	-	17,042	17,225
Subordinated debt	1,144	-	-	-	-	1,144	1,137
Other financial liabilities	607	-	226	-	-	833	833
Total financial liabilities	99,851	6,057	10,259	172	-	116,339	116,538

[1] Derivative financial instruments classified as held for trading include derivatives entered into as economic hedges which are not designated as accounting hedges.
[2] Fair value hedging is applied to certain financial assets within loans and advances and certain financial liabilities within debt issuances. The resulting fair value adjustment means that the carrying value differs from the amortised cost.

Notes to the Financial Statements

Measurement of fair value

Valuation methodologies

The Banking Group has an established control framework that ensures fair value is either determined or validated by a function independent of the party that undertakes the transaction. The control framework ensures that all models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data.

Where quoted market prices are used, prices are independently verified from other sources. For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of valuation models, any inputs to those models, any adjustments required outside of the valuation model and, where possible, independent validation of model outputs. In this way, continued appropriateness of the valuations is ensured.

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

The Group categorises its fair value measurements on the basis of inputs used in measuring fair value using the fair value hierarchy below:

- Level 1 – Financial instruments that have been valued by reference to unadjusted quoted prices in active markets for identical financial instruments. This category includes financial instruments valued using quoted yields where available for specific debt securities.
- Level 2 – Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly.
- Level 3 – Financial instruments that have been valued using valuation techniques which incorporate significant inputs that are not based on observable market data (unobservable inputs).

Valuation techniques and inputs used

In the event that there is no quoted market price for the instrument, fair value is based on valuation techniques. The valuation models incorporate the impact of bid/ask spreads, counterparty credit spreads, funding costs and other factors that would influence the fair value determined by market participants.

The majority of valuation techniques employ only observable market data. However, for certain financial instruments the valuation technique may employ some data (valuation inputs or components) which is not readily observable in the current market. In these cases valuation inputs (or components of the overall value) are derived and extrapolated from other relevant market data and tested against historic transactions and observed market trends. To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation.

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price (level1) for the instrument:

- For instruments classified as trading securities and securities short sold, derivative financial assets and liabilities, available-for-sale assets, and investments backing insurance contract liabilities, fair value measurements are derived by using modelled valuations techniques (including discounted cash flow models) that incorporate market prices / yields for securities with similar credit risk, maturity and yield characteristics; and/or current market yields for similar instruments.
- For net loans and advances, deposits and other borrowings and debt issuances, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.
- The Banking Group holds units in an unlisted fund, included in available-for sale assets which does not trade in an active market. The fair value of these units is based on the estimated cashflows from the realisation of the underlying assets.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year.

Notes to the Financial Statements

Valuation hierarchy for financial assets and financial liabilities measured at fair value

NZ$ millions	30/09/2015 Level 1	Level 2	Level 3	Total	30/09/2014 Level 1	Level 2	Level 3	Total
Financial assets								
Trading securities	11,880	259	-	12,139	11,659	91	-	11,750
Derivative financial instruments	12	17,646	-	17,658	2	11,402	-	11,404
Available-for-sale assets[1]	900	526	2	1,428	712	58	2	772
Investments backing insurance contract liabilities[1]	2	149	-	151	129	61	-	190
Total	12,794	18,580	2	31,376	12,502	11,612	2	24,116
Financial liabilities								
Deposits and other borrowings	-	4,964	-	4,964	-	6,057	-	6,057
Derivative financial instruments	19	17,211	-	17,230	5	10,200	-	10,205
Other financial liabilities	309	-	-	309	226	-	-	226
Total	328	22,175	-	22,503	231	16,257	-	16,488

Valuation hierarchy for financial assets and financial liabilities not measured at fair value[2]

NZ$ millions	30/09/2015 Level 1	Level 2	Level 3	Total	30/09/2014 Level 1	Level 2	Level 3	Total
Financial assets								
Net loans and advances	-	102,945	3,909	106,854	-	92,493	3,904	96,397
Financial liabilities								
Deposits and other borrowings	-	85,868	-	85,868	-	77,985	-	77,985
Debt issuances	638	18,878	-	19,516	-	17,225	-	17,225
Subordinated debt	1,363	925	-	2,288	828	309	-	1,137
Total	2,001	105,671	-	107,672	828	95,519	-	96,347

1 During the period, available-for-sale assets of NZ$159 million and Investments backing insurance contract liabilities of NZ$126 million were reclassified from Level 1 to Level 2 following a reassessment of available pricing information. Transfers into and out of Level 1 and Level 2 are deemed to have occurred as of the beginning of the reporting period in which the transfer occurred.

2 Fair values, where the carrying amount is not considered a close approximation of fair value.

19. Maturity Analysis of Assets and Liabilities

The following is an analysis of asset and liability line items in the balance sheet that combine amounts expected to be realised or due to be settled within one year and after more than one year.

NZ$ millions	30/09/2015 within one year	after more than one year	Total	30/09/2014 within one year	after more than one year	Total
Assets						
Investment backing insurance contract liabilities	146	5	151	190	-	190
Available-for-sale assets	1,071	357	1,428	437	335	772
Net loans and advances	26,967	79,390	106,357	26,451	69,848	96,299
Other assets	657	83	740	588	60	648
Liabilities						
Deposits and other borrowings	87,000	3,678	90,678	80,201	3,818	84,019
Payables and other liabilities	1,379	108	1,487	1,238	59	1,297
Provisions	95	96	191	117	87	204
Debt issuances	5,237	14,166	19,403	3,944	13,098	17,042

Notes to the Financial Statements

20. Assets Charged as Security for Liabilities and Collateral Accepted as Security for Assets

Assets charged as security for liabilities[1]

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

	Carrying Amount		Related Liability	
NZ$ millions	**30/09/2015**	30/09/2014	**30/09/2015**	30/09/2014
Securities sold under agreements to repurchase	**47**	47	**47**	47
Residential mortgages pledged as security for covered bonds	**7,547**	7,283	**5,335**	3,928
Assets pledged as collateral for UDC secured investments	**2,441**	2,354	**1,736**	1,569

UDC secured investments are constituted and secured by a trust deed between UDC Finance Limited and its independent trustee, Trustees Executors Limited. UDC Finance Limited has granted a charge over all its assets and undertaking, primarily net loans and advances, in favour of the Trustee.

Collateral accepted as security for assets[1]

The Banking Group has received collateral in relation to reverse repurchase agreements. These transactions are governed by standard industry agreements.

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

NZ$ millions	**30/09/2015**	30/09/2014
Collateral received on standard reverse repurchase agreements		
Fair value of assets which can be sold	**339**	308
Fair value of assets sold or repledged	**269**	216

[1] Excludes the amounts disclosed as collateral paid and received in the balance sheet that relate to derivative liabilities and derivative assets respectively. The terms and conditions of the collateral agreements are included in the standard Credit Support Annex that forms part of the International Swaps and Derivatives Association Master Agreement.

Notes to the Financial Statements

21. Offsetting

The following information relates to financial assets and liabilities which have not been set off in the balance sheet but for which the Banking Group has enforceable master netting agreements in place with counterparties. No financial assets and liabilities have been set off in the balance sheet.

		Related amounts not offset[1]		
NZ$ millions	Gross amounts presented in the balance sheet	Financial instruments	Cash collateral	Net amounts
30/09/2015				
Financial assets				
Collateral paid	**1,139**	**-**	**(1,112)**	**27**
Trading securities[2]	**47**	**(47)**	**-**	**-**
Derivative financial instruments	**7,007**	**(6,201)**	**(781)**	**25**
Financial liabilities				
Collateral received	**960**	**-**	**(781)**	**179**
Securities sold under agreements to repurchase[3]	**47**	**(47)**	**-**	**-**
Derivative financial instruments	**7,349**	**(6,201)**	**(1,112)**	**36**
30/09/2014				
Financial assets				
Collateral paid	284	-	(182)	102
Trading securities[2]	47	(47)	-	-
Derivative financial instruments	8,482	(7,606)	(716)	160
Financial liabilities				
Collateral received	753	-	(716)	37
Securities sold under agreements to repurchase[3]	47	(47)	-	-
Derivative financial instruments	7,858	(7,606)	(182)	70

[1] The Banking Group enters into derivatives and repurchase and reverse repurchase agreements with various counterparties which are governed by industry standard master netting agreements. The Banking Group holds and provides cash and securities collateral in respective of derivative transactions covered by these agreements. The right to set off balances under these master netting agreements or to set off cash and securities collateral only arises in the event of non payment or default and, as a result, these arrangements do not qualify for offsetting under NZ IAS 32 *Financial Instruments: Presentation*.

[2] This is the amount of trading securities encumbered through repurchase agreements, see financial assets pledged as collateral table in this note.

[3] Included in deposits from banks, see note 14.

Notes to the Financial Statements

22. Credit Related Commitments, Guarantees and Contingent Liabilities

	Face or contract value	
NZ$ millions	**30/09/2015**	30/09/2014
Credit related commitments		
Commitments with certain drawdown due within one year	**1,130**	764
Commitments to provide financial services	**31,291**	27,378
Total credit related commitments	**32,421**	28,142
Guarantees and contingent liabilities		
Financial guarantees	**920**	925
Standby letters of credit	**82**	79
Transaction related contingent items	**1,385**	1,321
Trade related contingent liabilities	**67**	111
Total guarantees and contingent liabilities	**2,454**	2,436

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

Other contingent liabilities

On 11 March 2013, litigation funder Litigation Lending Services (NZ) Limited announced plans for a representative action against banks in New Zealand for certain fees charged to New Zealand customers over the past six years. Proceedings were filed against the Bank on 25 June 2013. The potential outcome of this litigation cannot be determined with any certainty at this stage.

The Banking Group has other contingent liabilities in respect of actual and possible claims and court proceedings.

An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where deemed necessary.

Notes to the Financial Statements

23. Other Assets

NZ$ millions	30/09/2015	30/09/2014
Accrued interest and prepaid discounts	**426**	426
Accrued commission	**22**	19
Share-based payments asset	**83**	60
Prepaid expenses	**24**	15
Other assets	**185**	128
Total other assets	**740**	648

24. Goodwill and Other Intangible Assets

NZ$ millions	30/09/2015	30/09/2014
Goodwill	**3,233**	3,233
Software	**139**	96
Other intangibles	**120**	125
Total goodwill and other intangible assets	**3,492**	3,454

25. Payables and Other Liabilities

NZ$ millions	30/09/2015	30/09/2014
Creditors	**121**	58
Accrued interest and unearned discounts	**479**	488
Defined benefit schemes deficit	**43**	20
Share-based payments liability	**65**	39
Accrued charges	**240**	227
Security settlements and short sales	**309**	226
Life insurance contract liabilities - reinsurance	**107**	104
Liability for acceptances	**52**	67
Other liabilities	**71**	68
Total payables and other liabilities	**1,487**	1,297

26. Provisions

NZ$ millions	30/09/2015	30/09/2014
Employee annual and long service leave	**129**	114
Other[1]	**62**	90
Total provisions	**191**	204

[1] Includes provisions for surplus leased space, make-good of leased premises, seismic obligations, and restructuring costs.

Notes to the Financial Statements

27. Share Capital

	Number of issued shares		NZ$ millions	
	30/09/2015	30/09/2014	**30/09/2015**	30/09/2014
Ordinary shares				
At beginning of the year	**2,670,755,498**	1,700,755,498	**7,913**	6,943
Issued during the year	**675,000,000**	970,000,000	**675**	970
Ordinary shares at end of the year	**3,345,755,498**	2,670,755,498	**8,588**	7,913
Preference shares				
At beginning of the year	**300,000,000**	300,000,000	**300**	300
Preference shares at end of the year	**300,000,000**	300,000,000	**300**	300
Total share capital	**3,645,755,498**	2,970,755,498	**8,888**	8,213

Ordinary shares

650,712 of the ordinary shares are uncalled (30/09/2014 650,712 shares uncalled).

During the year ended 30 September 2015 the Bank paid ordinary dividends of NZ$1,745 million (30/09/2014 NZ$2,340 million) to the Immediate Parent Company (equivalent to NZ$0.65 per share) (30/09/2014 equivalent to NZ$1.20 per share).

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

Preference shares

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

Dividends

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, beginning on 1 March 2014.

Redemption features

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

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

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

Rights of holders in event of liquidation

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

The preference shares qualify as “additional tier 1 capital” for capital adequacy purposes.

Notes to the Financial Statements

28. Capital Adequacy

Capital management policies

The Banking Group's core capital objectives are to:

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

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

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

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

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

The Banking Group has complied with all externally imposed capital requirements to which it is subject during the current and comparative periods.

Basel III capital ratios	**Banking Group**		**Bank**	
	30/09/2015	30/09/2014	**30/09/2015**	30/09/2014
Unaudited				
Common equity tier 1 capital	**10.5%**	10.7%	**9.4%**	9.4%
Tier 1 capital	**12.7%**	11.1%	**11.8%**	9.8%
Total capital	**13.6%**	12.3%	**12.7%**	11.1%
Buffer ratio	**5.6%**	4.3%		
RBNZ minimum ratios:				
Common equity tier 1 capital	**4.5%**	4.5%		
Tier 1 capital	**6.0%**	6.0%		
Total capital	**8.0%**	8.0%		
Buffer requirement	**2.5%**	2.5%		

Notes to the Financial Statements

Capital of the Banking Group

NZ$ millions	Note	Unaudited 30/09/2015
Tier 1 capital		
Common equity tier 1 capital		
Paid up ordinary shares issued by the Bank	27	8,588
Retained earnings (net of appropriations)		3,575
Accumulated other comprehensive income and other disclosed reserves		(10)
Less deductions from common equity tier 1 capital		
Goodwill and intangible assets, net of associated deferred tax liabilities		(3,479)
Cash flow hedge reserve		10
Expected losses to the extent greater than total eligible allowances for impairment		(243)
Common equity tier 1 capital		8,441
Additional tier 1 capital		
Preference shares	27	300
ANZ Capital Notes	16	1,503
Capital attributable to The Bonus Bonds Trust investors		38
Additional tier 1 capital		1,841
Total tier 1 capital		10,282
Tier 2 capital		
Qualifying tier 2 capital instruments subject to phase-put under RBNZ Basel III transition arrangements		
NZD 835,000,000 perpetual subordinated bond	16	835
Less deductions from tier 2 capital		
Basel III transition adjustment[1]		(133)
Total tier 2 capital		702
Total capital		10,984

Capital requirements of the Banking Group

NZ$ millions	Exposure at default	Risk weighted exposure or implied risk weighted exposure[2]	Total capital requirement
Unaudited 30/09/2015			
Exposures subject to internal ratings based approach	147,803	57,638	4,611
Specialised lending exposures subject to slotting approach	10,071	9,312	745
Exposures subject to standardised approach	2,178	361	29
Equity exposures	6	27	2
Other exposures	3,494	1,540	123
Total credit risk	163,552	68,878	5,510
Operational risk	n/a	5,649	452
Market risk	n/a	6,135	490
Total	163,552	80,662	6,452

[1] Certain instruments issued by the Bank qualify as tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements. Fixing the base at the nominal amount of such instruments outstanding at 31 December 2012, their recognition is capped at 60% of that base from 1 January 2015; 40% from 1 January 2016; 20% from 1 January 2017; and from 1 January 2018 onwards these instruments will not be included in regulatory capital.

[2] Total credit risk weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

Notes to the Financial Statements

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

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

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

Probability of Default (PD): An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring;

Exposure at Default (EAD): The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration; and

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 supplied by the RBNZ rather than internal estimates.

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

Classification of Banking Group exposures according to rating approach

Internal ratings based approach

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

Standardised approach

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

Notes to the Financial Statements

Controls surrounding credit risk rating systems

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

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

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

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

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

Capital requirements by asset class under the IRB approach

Unaudited 30/09/2015	Total exposure or principal amount NZ$m	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures						
Corporate	35,967	36,157	37	56	21,636	1,730
Sovereign	10,636	10,603	5	1	107	8
Bank	6,881	5,406	63	24	1,358	109
Retail mortgages	57,245	57,476	20	24	14,531	1,163
Other retail	4,971	5,075	76	97	5,220	418
Total on-balance sheet exposures	115,700	114,717	29	35	42,852	3,428
Off-balance sheet exposures						
Corporate	12,078	9,967	51	50	5,234	419
Sovereign	130	75	5	1	1	-
Bank	1,433	1,150	48	16	192	15
Retail mortgages	7,934	8,304	18	17	1,476	118
Other retail	5,717	5,520	79	56	3,261	261
Total off-balance sheet exposures	27,292	25,016	46	38	10,164	813
Market related contracts						
Corporate	133,997	2,564	60	81	2,208	177
Sovereign	11,742	853	5	29	259	21
Bank	825,952	4,653	63	44	2,155	172
Total market related contracts	971,691	8,070	56	54	4,622	370
Total credit risk exposures subject to the IRB approach	1,114,683	147,803	33	37	57,638	4,611

Notes to the Financial Statements

IRB exposures by customer credit rating

Unaudited 30/09/2015	Probability of default %	Exposure at default NZ$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Corporate						
0 - 2	0.05	6,205	63	37	2,452	196
3 - 4	0.32	24,794	38	43	11,283	903
5	1.03	10,598	38	67	7,582	607
6	2.25	5,261	38	86	4,809	385
7 - 8	7.98	1,405	42	151	2,256	180
Default	100.00	425	45	154	696	55
Total corporate exposures	1.74	48,688	41	56	29,078	2,326
Sovereign						
0	0.01	11,421	5	3	365	29
1 - 8	0.01	110	5	2	2	-
Total sovereign exposures	0.01	11,531	5	3	367	29
Bank						
0	0.03	74	65	21	17	1
1	0.03	9,858	61	29	3,065	245
2 - 4	0.09	1,259	62	45	600	48
5 - 8	1.37	18	62	121	23	2
Total bank exposures	0.04	11,209	61	31	3,705	296
Retail mortgages						
0 - 3	0.20	15,253	12	5	786	63
4	0.46	23,521	19	15	3,673	294
5	0.92	20,966	25	33	7,258	581
6	2.02	5,189	28	64	3,545	284
7 - 8	5.27	506	29	108	578	46
Default	100.00	345	24	46	167	13
Total retail mortgages exposures	1.23	65,780	20	23	16,007	1,281
Other retail						
0 - 2	0.10	617	77	50	324	26
3 - 4	0.26	4,548	78	54	2,617	209
5	1.00	1,918	72	71	1,452	116
6	2.39	1,888	77	94	1,889	151
7 - 8	8.79	1,546	85	130	2,133	171
Default	100.00	78	78	81	66	6
Total other retail exposures	2.74	10,595	78	76	8,481	679
Total credit risk exposures subject to the IRB approach	1.32	147,803	33	37	57,638	4,611

Credit risk exposures subject to the IRB approach have been derived in accordance with BS2B and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

Notes to the Financial Statements

Specialised lending subject to the slotting approach

Unaudited 30/09/2015	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Strong	2,706	70	2,008	161
Good	5,270	90	5,028	402
Satisfactory	702	115	856	69
Weak	77	250	200	16
Default	78	-	-	-
Total on-balance sheet exposures	8,833	86	8,092	648

	Exposure amount NZ$m	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures					
Undrawn commitments and other off balance sheet exposures	1,533	1,124	87	1,043	83
Market related contracts	2,170	114	146	177	14
Total off-balance sheet exposures	3,703	1,238	93	1,220	97

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

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

Credit risk exposures subject to the standardised approach

Unaudited 30/09/2015	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
On-balance sheet exposures				
Corporates	55	100	58	5
Default	1	150	1	-
Total on-balance sheet exposures	56	101	59	5

	Exposure amount NZ$m	Average credit conversion factor %	Exposure at default NZ$m	Average risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Off-balance sheet exposures						
Undrawn commitments and other off balance sheet exposures	532	47	249	99	262	21
Market related contracts	493,361	-	1,873	2	40	3
Total off balance sheet	493,893	n/a	2,122	13	302	24

Credit exposures subject to the Standardised Approach have been calculated in accordance with BS2A.

Notes to the Financial Statements

Equity exposures

Unaudited 30/09/2015	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
All equity holdings not deducted from capital	6	400	27	2

Equity exposures have been calculated in accordance with BS2B.

Other exposures

Unaudited 30/09/2015	Exposure at default NZ$m	Risk weight %	Risk weighted exposure NZ$m	Total capital requirement NZ$m
Cash	195	-	-	-
New Zealand dollar denominated claims on the Crown and the RBNZ	1,847	-	-	-
Other assets	1,452	100	1,540	123
Total other IRB credit risk exposures	3,494	42	1,540	123

Other exposures have been calculated in accordance with BS2B.

Credit risk mitigation

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.

As at 30 September 2015, under the IRB approach, the Banking Group had NZ$1,150 million of Corporate exposures covered by guarantees where the presence of the guarantees was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 30 September 2015 the Banking Group had an implied risk weighted exposure of NZ$5,649 million for operational risk and an operational risk capital requirement of NZ$452 million.

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

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

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

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

Notes to the Financial Statements

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 half-year ended 30 September 2015.

	Implied risk weighted exposure		Aggregate capital charge		Peak
NZ$ millions	Period end	Peak	Period end	Peak	occurred on
Unaudited 30/09/2015					
Interest rate risk	6,092	10,062	487	805	6/07/2015
Foreign currency risk	41	132	3	11	20/04/2015
Equity risk	2	2	-	-	30/09/2015
	6,135		490		

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 business risk, pension risk, insurance risk, funds management risk, lapse risk, premises and equipment risk and capitalised origination fees risk.

The Banking Group's internal capital allocation for these other material risks is NZ$479 million (30/09/2014 NZ$485 million).

The Banking Group regularly reviews the methodologies used to calculate the economic capital allocated to other material risks. Updated capital methodologies (particularly relating pension risk and business retention risk) were applied in March 2015 and prior periods restated accordingly.

Capital adequacy of the Ultimate Parent Bank

Basel III capital ratios

	Overseas Banking Group		Ultimate Parent Bank (Extended Licensed Entity)	
	30/09/2015	30/09/2014	**30/09/2015**	30/09/2014
Unaudited				
Common equity tier 1 capital	**9.6%**	8.8%	**9.6%**	9.1%
Tier 1 capital	**11.3%**	10.7%	**11.6%**	11.3%
Total capital	**13.3%**	12.7%	**13.7%**	13.4%

For calculation of minimum capital requirements under Pillar 1 (Capital Requirements) of the Basel Accord, APRA has accredited the Overseas Banking Group to use the Advanced Internal Ratings Based (AIRB) methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach (AMA) for the operational risk weighted asset equivalent.

Under prudential regulations, the Overseas Banking Group is required to maintain a Prudential Capital Ratio (PCR) as determined by APRA. The Overseas Banking Group exceeded the PCR set by APRA as at 30 September 2015 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 30 September 2015. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 30 September 2015, 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.

Notes to the Financial Statements

Residential mortgages by loan-to-valuation ratio

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

Unaudited	30/09/2015		
NZ$ millions	On-balance sheet	Off-balance sheet	Total
LVR range			
Does not exceed 60%	21,702	4,136	25,838
Exceeds 60% and not 70%	11,337	1,377	12,714
Exceeds 70% and not 80%	17,797	1,933	19,730
Does not exceed 80%	50,836	7,446	58,282
Exceeds 80% and not 90%	4,320	232	4,552
Exceeds 90%	2,089	256	2,345
Total	57,245	7,934	65,179

Reconciliation of mortgage related amounts

Unaudited NZ$ millions	Note	30/09/2015
Term loans - housing	12	59,428
Less: fair value hedging adjustment		(165)
Add: short-term housing loans classified as overdrafts		476
Less: housing loans made to corporate customers		(2,531)
Gross retail mortgage loans	17	57,208
Add: Unsettled re-purchases of mortgages from the NZ Branch		37
On-balance sheet retail mortgage exposures subject to the IRB approach		57,245
Add: off-balance sheet retail mortgage exposures subject to the IRB approach		7,934
Total retail mortgage exposures subject to the IRB approach (as per LVR analysis)		65,179

Notes to the Financial Statements

29. Subsidiaries

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

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

[1] The Banking Group does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as the Banking Group retains substantially all the risks and rewards of the operations. Details of the Banking Group's interest in consolidated structured entities is included in note 30.

Notes to the Financial Statements

30. Structured Entities, Transferred Financial Assets, Fiduciary Activities and Insurance

Structured entities

The Banking Group's involvement with structured entities is mainly through securitisations and its funds management activities, which are outlined further below. The Banking Group has involvement with structured entities that may be established either by the Banking Group or by a third party.

Consolidated structured entities

Kingfisher NZ Trust 2008-1 (the Kingfisher Trust)

The Banking Group has established the Kingfisher Trust as an in-house residential mortgage backed securities facility that can issue securities meeting the RBNZ criteria to use as collateral in repurchase transactions with the RBNZ.

These assets do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of the transferred assets.

As at 30 September 2015 and 30 September 2014 the Banking Group had not entered into any repurchase agreements with the RBNZ for residential mortgage backed securities and therefore no collateral had been accepted by the RBNZ under this facility.

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 continues to recognise the assets of the Covered Bond Trust on its balance sheet as, although they are pledged as security for covered bonds, the Bank retains substantially all the risks and rewards of ownership.

Unconsolidated securitisations

The Banking Group also has an interest in unconsolidated securitisation entities through the provision of funding facilities or holding bonds or notes issued by such entities. The Banking Group's exposure to these entities is not material.

Transferred financial assets

Assets transferred to the Kingfisher Trust and the Covered Bond Trust

The Bank has purchased securities issued by both the Kingfisher Trust and the Covered Bond Trust in exchange for the transfer of the rights to the cash flows associated with the identified residential mortgages. As at 30 September 2015, NZ$16,071 million of assets were held in the Kingfisher Trust and the Covered Bond Trust (30/09/2014 NZ$15,270 million).

Repurchase transactions

Securities sold subject to repurchase agreements are not derecognised when substantially all the risks and rewards of ownership remain with the Bank. See note 20 for details of securities sold under agreements to repurchase. The amount of trading securities encumbered through repurchase agreements is shown in note 21. The carrying amount of the associated liabilities is not materially different to the amount of trading securities subject to the repurchase agreement.

Notes to the Financial Statements

Funds management and other fiduciary activities

Funds management

Certain subsidiaries of the Bank act as trustee and/or manager for a number of unit trusts and investment and superannuation funds. The Banking Group provides private banking services to a number of clients, including investment advice and portfolio management. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

As funds under management are not controlled by the Banking Group, they are not included in these financial statements. The Banking Group derives fee and commission income from the sale and management of investment funds and superannuation schemes, unit trusts and the provision of private banking services to customers. The Banking Group derives commission income from the sale of third party funds management products.

Some funds under management are invested in products owned or securities issued by the Banking Group and are recorded as liabilities in the balance sheet. At 30 September 2015, NZ$3,100 million of funds under management were invested in the Banking Group's own products or securities (30/09/2014 NZ$2,928 million).

Custodial services

The Banking Group provides custodial services to customers in respect of assets that are beneficially owned by those customers.

NZ$ millions	30/09/2015	30/09/2014
Kiwisaver and other managed funds	9,147	7,205
The Bonus Bonds Trust	3,277	3,196
ANZ PIE Fund[1]	794	715
Other investment portfolios[2]	9,522	8,807
Total funds under management	22,740	19,923
Funds held in custody or as nominee on behalf of customers	8,082	7,427
Funds management fee income from structured entities	137	110

[1] The Banking Group established, and is considered to be the sponsor of, the ANZ PIE Fund. The ANZ PIE Fund invests only in deposits with the Bank. The Banking Group does not receive a management fee from, and does not have an interest in, the ANZ PIE Fund.
[2] These funds are not structured entities as they are investment portfolios managed on behalf of customers.

Provision of financial services

Financial services provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value. The Banking Group does not have any affiliated insurance entities or affiliated insurance groups that are not members of the Banking Group.

Except for standard lending facilities provided in the normal course of business on arm's length terms, the Banking Group has not provided any funding to entities where trust, custodial, funds management or other fiduciary activities are established, marketed and/or sponsored by a member of the Banking Group (30/09/2014 nil).

Insurance business

The Banking Group conducts insurance business through its subsidiary OnePath Life (NZ) Limited (OnePath Life). OnePath Insurance Services (NZ) Limited, which was a subsidiary of OnePath Life, also conducted insurance business until it amalgamated with OnePath Life on 30 November 2014.

OnePath Life provides a range of risk transfer insurance products, including life lump sum trauma/disablement, income protection and medical cover. In addition, other entities within the Banking Group market and distribute a range of insurance products which are underwritten by OnePath Life, or by third party insurance companies.

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of OnePath Life of NZ$884 million (30/09/2014 NZ$850 million), which is 0.6% (30/09/2014 0.7%) of the total consolidated assets of the Banking Group.

Risk management

The Bank and subsidiaries of the Bank participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank or the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

Notes to the Financial Statements

31. Related Party Disclosures

Key management personnel

Key management personnel are defined as the Directors and senior management of the Banking Group - those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The information below includes transactions with those individuals, their close family members and their subsidiaries.

Loans made to and deposits held by key management personnel are made in the course of ordinary 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.

NZ$ thousands	Year to 30/09/2015	Year to 30/09/2014
Key management personnel compensation		
Salaries and short-term employee benefits	**12,698**	12,402
Post-employment benefits	**220**	387
Other long-term benefits	**77**	130
Share-based payments expense	**5,076**	5,400
Total compensation of key management personnel	**18,071**	18,319
Loans to and deposits held by key management personnel		
Loans to key management personnel	**4,020**	7,661
Deposits from key management personnel	**6,945**	5,035

Transactions with other related parties

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

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

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

Transactions with related parties

NZ$ millions	Year to 30/09/2015	Year to 30/09/2014
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Interest income	**4**	3
Interest expense	**62**	28
Fee income	**23**	26
Gain / (loss) on sale of mortgages to the NZ Branch	**1**	(23)
Other operating income	**35**	116
Operating expenses	**64**	81
Mortgages sold to the NZ Branch	**1,891**	3,393
Immediate Parent Company		
Interest expense	**-**	8
Ordinary shares issued	**675**	970
Associates		
Interest expense	**3**	3
Share of associates' profit	**5**	3

Notes to the Financial Statements

Balances with related parties

NZ$ millions	30/09/2015	30/09/2014
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Cash	-	61
Settlement balances receivable	86	12
Collateral paid	-	125
Derivative financial instruments	4,006	3,747
Other assets	97	83
Immediate Parent Company		
Derivative financial instruments	2	-
Associates		
Investments in associates	4	88
Total due from related parties	4,195	4,116
Ultimate Parent Bank and subsidiaries not part of the Banking Group		
Settlement balances payable	476	424
Collateral received	688	-
Deposits and other borrowings	1	182
Derivative financial instruments	3,240	3,819
Payables and other liabilities	17	9
Subordinated debt	1,014	309
Immediate Parent Company		
Deposits and other borrowings	51	4
Derivative financial instruments	-	1
Payables and other liabilities	-	1
Associates		
Deposits and other borrowings	-	85
Total due to related parties	5,487	4,834

Balances due from / to related parties are unsecured other than that the Banking Group and the Bank have provided guarantees and commitments to related parties as follows:

NZ$ millions	30/09/2015	30/09/2014
Financial guarantees provided to the Ultimate Parent Bank	183	180
Undrawn credit commitments provided to the Immediate Parent Company	250	250

32. Capital Expenditure and Operating Lease Commitments

NZ$ millions	30/09/2015	30/09/2014
Contracts for outstanding capital expenditure		
Not later than 1 year	12	15
Future minimum lease payments under non-cancellable operating leases		
Not later than 1 year	47	87
Later than 1 year but not later than 5 years	258	203
Later than 5 years	197	178
Total operating lease commitments	502	468
Total commitments	514	483

Notes to the Financial Statements

33. Compensation of Auditors

NZ$ thousands	Year to 30/09/2015	Year to 30/09/2014
Compensation of auditors (KPMG New Zealand)		
Audit or review of financial statements[1]	**2,165**	2,197
Other services:		
Review of regulatory returns	**40**	96
Offer documents assurance or review	**155**	249
Other assurance services[2]	**187**	151
Total other services	**382**	496
Total compensation of auditors relating to the Banking Group	**2,547**	2,693
Compensation of auditors on behalf of related entities:		
Other members of ANZ New Zealand - audit of financial statements	**-**	5
Other related entities[3]	**121**	147
Total compensation of auditors	**2,668**	2,845

1 Includes fees for both the audit of the annual financial statements and reviews of interim financial statements.
2 Includes fees for controls reports, comfort letters and other agreed upon procedures engagements.
3 Amounts relate to the ANZ PIE Fund and The Bonus Bonds Trust and include fees for audits of annual financial statements and audits of summary financial statements for inclusion in offer documents, comfort letters and other agreed upon procedures engagements.

It is the Banking Group's policy that, subject to the approval of the Ultimate Parent Bank's Audit Committee, KPMG can provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. KPMG may not provide services that are perceived to be in conflict with the role of auditor. Services that are perceived to be in conflict with the role of auditor include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

Notes to the Financial Statements

34. Concentrations of Credit Risk to Individual Counterparties

The Banking Group measures its concentration of credit risk in respect to bank counterparties on the basis of approved exposures and in respect to non bank counterparties on the basis of limits. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures.

For the year ended 30 September 2015 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of equity (as at the end of the period).

Concentrations of credit risk to connected persons

Credit exposures to connected persons reported in the table below have been calculated partially on a bilateral net basis and partially on a gross basis. Netting has occurred (up to a limit of 125% of the Banking Group's tier 1 capital) in respect of certain transactions which are the subject of a bilateral netting agreement.

This information has been derived in accordance with the Bank's conditions of registration, the RBNZ document *Connected Exposures Policy* (BS8). The exposures are net of individual credit impairment allowances and exclude advances to connected persons of a capital nature.

	30/09/2015		30/09/2014	
	Amount NZ$m	**% of Tier 1 Capital**	Amount NZ$m	% of Tier 1 Capital
Aggregate at end of year[1]				
Bank connected persons (on gross basis, before netting)	**7,907**	**76.9%**	7,318	90.0%
Less: amount netted off	**5,205**	**50.6%**	5,747	70.7%
Bank connected persons (on partial bilateral net basis)	**2,702**	**26.3%**	1,571	19.3%
Peak end-of-day for the year[2]				
Bank connected persons (on gross basis, before netting)	**8,491**	**82.6%**	6,510	80.1%
Less: amount netted off	**5,334**	**51.9%**	4,254	52.4%
Bank connected persons (on partial bilateral net basis)	**3,157**	**30.7%**	2,256	27.7%
Rating-contingent limit[3]				
Bank connected persons (on a gross basis, before netting)	**n/a**	**125.0%**	n/a	125.0%
Bank connected persons (on partial bilateral net basis)	**n/a**	**70.0%**	n/a	70.0%
Non-bank connected persons	**n/a**	**15.0%**	n/a	15.0%

1 The Banking Group has amounts due from the Immediate Parent Company and the Ultimate Parent Bank and other entities within the Overseas Banking Group arising in the ordinary course of business. These balances arise primarily from unrealised gains on trading and hedging derivative financial instruments with the Ultimate Parent Bank. As at 30 September 2015, the gross exposures to the Immediate Parent Company were NZ$5 million (30/09/2014 NZ$6 million). As at 30 September 2015, the gross exposures to the Ultimate Parent Bank were NZ$7,902 million (30/09/2014 NZ$7,312 million).

2 The Banking Group has complied with the limits on aggregate credit exposure (of a non-capital nature and net of individual provisions) to connected persons and non-bank connected persons, as set out in the Conditions of Registration, at all times during the year. The peak end-of-day credit exposures for the year to connected persons are measured over Tier 1 Capital as at the end of the year.

3 Represents the maximum peak end-of-day aggregate credit exposures limit (of a non-capital nature and net of individual provisions) to all connected persons. This limit is based on the ratings applicable to the Bank's long term senior unsecured obligations payable in New Zealand in New Zealand dollars. Within the overall limit a sub-limit of 15% of Tier 1 Capital applies to aggregate credit exposures (exclusive of exposures of a capital nature and net of individual provisions) to non-bank connected persons. There have been no changes to these limits for the year ended 30 September 2015.

Notes to the Financial Statements

35. Risk Management Framework

The Banking Group recognises the importance of effective risk management to its business success. Management is committed to achieving strong control and a distinctive risk management capability that enables the Banking Group business units to meet their performance objectives.

The Banking Group approaches risk through managing the various elements of the system as a whole rather than viewing them as independent and unrelated parts. The risk management division (Risk Management) is independent of the business, with clear delegations from the Board, and operates within a comprehensive framework comprising:

- The Board providing leadership, setting risk appetite/strategy and monitoring progress;
- A strong framework for development and maintenance of Banking Group-wide risk management policies, procedures and systems, overseen by an independent team of risk professionals;
- The use of sophisticated risk tools, applications and processes to execute the global risk management strategy across the Banking Group;
- Business unit level accountability, as the "first line of defence", for the management of risks in alignment with the Banking Group's strategy; and
- Independent oversight to ensure business unit level compliance with policies, regulations and laws, and to provide regular risk evaluation and reporting.

The Banking Group manages risk through an approval, delegation and limits structure. Regular reviews of the policies, systems and risk reports, including the effectiveness of the risk management systems, discussions covering the Banking Group's response to emerging risk issues and trends, and that the requisite culture and practices are in place across the Banking Group, are conducted within the Banking Group and also by the Ultimate Parent Bank. The Board has responsibility for reviewing all aspects of risk management.

The Board has ultimate responsibility for overseeing the effective deployment of risk management frameworks, policies and processes within New Zealand. The Bank's Risk Committee assists the Board in this function. The role of the Risk Committee is to assist the Board in the effective discharge of its responsibilities for business, market, credit, operational, compliance, liquidity, product and reputational risk management, and to liaise and consult with the Ultimate Parent Bank Risk Committee as required. Risk Management, via the Chief Risk Officer, coordinates risk management activities directly between Business Unit risk functions and Ultimate Parent Bank Group Risk Management functions.

The risk management process is subject to oversight by the Risk Committee of the Ultimate Parent Bank Board. This includes the review of risk portfolios and the establishment of prudential policies and controls.

The Banking Group's risk management policies are essentially the same as the Ultimate Parent Bank, but are tailored where required to suit the local New Zealand regulatory and business environment.

The Audit Committee, which is a sub-committee of the Board, has responsibility for ensuring the integrity of the Banking Group's financial controls, reporting systems and internal audit standards. It meets at least four times a year and reports directly to the Board. All members of the Audit Committee are non-executive directors.

Financial risk management

Refer to note 17 for detailed disclosures on the Banking Group's financial risk management policies.

Operational Risk

Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, from a breakdown in the availability or integrity of services, systems and information, or damage to the Banking Group's reputation.

Examples include failure to comply with policy and legislation, human error, natural disasters, fraud and other malicious acts. Where appropriate, risks are mitigated by insurance.

Risk Management is responsible for establishing the Banking Group's operational risk framework and associated Banking Group-wide policies. Business units are responsible for the identification, analysis, assessment and treatment of operational risks on a day-to-day basis.

Business units have primary responsibility for the identification and management of operational risk with executive oversight provided through business unit Risk Forums. The Bank's Operational Risk Executive Committee (OREC) undertakes the governance function through the bi-monthly monitoring of operational risk performance across the Banking Group. The Board and Risk Management conduct effective oversight through the approval of operational risk policies and frameworks and monitoring key operational risk metrics.

Compliance

The Banking Group conducts its business in accordance with all relevant compliance requirements. In order to assist the Banking Group identify, manage, monitor and measure its compliance obligations, the Banking Group has a comprehensive compliance framework in place, which addresses both external (regulatory) and internal compliance.

Risk Management, in conjunction with business unit staff ensure the Banking Group operates within a compliance infrastructure and framework that incorporates new and changing business obligations and processes.

The compliance policies and their supporting framework seek to minimise material risks to the Banking Group's reputation and value that could arise from non-compliance with laws, regulations, industry codes and internal standards and policies. Business units have primary responsibility for the identification and management of compliance. Risk Management provides policy and framework, measurement, monitoring and reporting, as well as leadership in areas such as anti-money laundering procedures and matters of prudential compliance. The Bank's OREC, the Chief Risk Officer, the Board and the Risk Committee of the Ultimate Parent Bank Board conduct board and executive oversight.

Notes to the Financial Statements

Global Internal Audit

Global 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 Global 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 Global Internal Audit Plan is developed utilising a risk based approach and is refreshed on a quarterly basis. The Audit Committee approves the plan, the associated budget and any changes.

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, Risk Committee and management. These results influence the performance assessment of business heads.

Furthermore, Global Internal Audit monitors the remediation of audit issues and highlights the current status of any outstanding audits.

Historical Summary of Financial Statements

NZ$ millions	**Year to 30/09/2015**	Year to 30/09/2014	Year to 30/09/2013	Year to 30/09/2012	Year to 30/09/2011
Interest income	**6,926**	6,272	5,957	6,017	6,179
Interest expense	**4,051**	3,529	3,344	3,335	3,620
Net interest income	**2,875**	2,743	2,613	2,682	2,559
Non-interest income	**1,175**	1,085	823	1,006	856
Operating income	**4,050**	3,828	3,436	3,688	3,415
Operating expenses	**1,512**	1,489	1,512	1,742	1,686
Credit impairment charge / (release)	**74**	(16)	63	193	178
Profit before income tax	**2,464**	2,355	1,861	1,753	1,551
Income tax expense	**681**	639	490	428	452
Profit after income tax	**1,783**	1,716	1,371	1,325	1,099
Dividends paid	**(1,760)**	(2,353)	(1,065)	(1,150)	(700)
Share capital issued	**675**	970	300	-	-

NZ$ millions	**As at 30/09/2015**	As at 30/09/2014	As at 30/09/2013	As at 30/09/2012	As at 30/09/2011
Total impaired assets	**382**	634	901	1,366	1,726
Total assets	**147,527**	128,915	120,444	121,564	121,440
Total liabilities	**135,074**	117,134	108,990	110,653	110,615
Equity	**12,453**	11,781	11,454	10,911	10,825

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

General Disclosures

General Matters

The Disclosure Statement has been issued in accordance with the Order.

The Bank is incorporated under the Companies Act 1993. The Bank is wholly owned by its Immediate Parent Company and ultimately by the Ultimate Parent Bank. The Immediate Parent Company of the Bank is incorporated in New Zealand and owned by ANZ Funds Pty Limited and the Ultimate Parent Bank (both incorporated in Australia). The address for service for the Ultimate Parent Bank is ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, Australia.

The Immediate Parent Company has the power under the Bank's Constitution to appoint any person as a Director of the Bank either to fill a casual vacancy or as an additional Director or to remove any person from the office of Director, from time to time by giving written notice to the Bank. No appointment of a new Director may occur unless the RBNZ confirms that it does not object to the appointment.

Material Financial Support

In accordance with requirements issued by APRA pursuant to its Prudential Standards, the Ultimate Parent Bank may not provide material financial support to the Bank contrary to the following:

- 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 should not hold unlimited exposures (should be limited as to specified time and amount) in the Bank (e.g. not provide a general guarantee covering any of the Bank's obligations);
- the Ultimate Parent Bank should not enter into cross default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of the Ultimate Parent Bank in its obligations;
- the Board of the Ultimate Parent Bank in determining limits on acceptable levels of exposure to the Bank should have regard to:
  - the level of exposure that would be approved to third parties of broadly equivalent credit status. In this regard, prior consultation (and in some cases approval) is required before entering exceptionally large exposures;
  - the impact on the Ultimate Parent Bank's capital and liquidity position and its ability to continue operating in the event of a failure by the Bank; and
- the level of exposure to the Bank not exceeding:
  - 50% on an individual exposure basis; and
  - 150% in aggregate (being exposures to all similar regulated entities related to the Ultimate Parent Bank)

  of the Ultimate Parent Bank's capital base.

Additionally, the Ultimate Parent Bank may not provide material financial support in breach of the Australian Banking Act (1959). This requires APRA to exercise its powers and functions for the protection of a bank's depositors and in the event of a bank becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia shall be available to meet that bank's deposit liabilities in Australia in priority to all other liabilities of the bank.

The Ultimate Parent Bank has not provided material financial support to the Bank contrary to any of the above requirements.

Guarantors

No material obligations of the Bank are guaranteed as at 18 November 2015.

ANZNZ Covered Bond Trust

Certain debt securities (Covered Bonds) issued by the Bank's wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, 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 Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 30 September 2015 of NZ$5,335 million, pursuant to a guarantee which is secured over a pool of assets. 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 payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in note 30.

Other Matters

APRA has informed the four major Australian banks, including the Ultimate Parent Bank, that it is reviewing the level of non-equity and contingent funding that can be provided to their respective New Zealand banking subsidiaries and branches. Whilst details of this review are subject to further discussions with APRA, we believe that the Ultimate Parent Bank will continue to be able to provide financial support to ANZ New Zealand. We expect that any changes, if implemented, will be made with an appropriate transition period determined by APRA to allow ANZ New Zealand to adjust to any new arrangements.

General Disclosures

Credit Rating Information

As at 18 November 2015 the Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars.

The Bank's Credit Ratings, which have not changed in the last two years, are:

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's	AA-	Outlook Stable
Moody's Investors Service	Aa3	Outlook Stable
Fitch Ratings	AA-	Outlook Stable

The following table describes the credit rating grades available:

	Standard & Poor's	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 Standard & Poor's 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.

Conditions of Registration

Conditions of Registration, applicable as at 30 September 2015. These Conditions of Registration have applied from 1 October 2014.

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; and

   (e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated October 2014 is followed for the recognition and repayment of capital.

   For the purposes of this condition of registration,-

   the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated October 2014 is 1.06.

   "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated October 2014.

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 October 2014; and

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

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated October 2014.

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

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

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

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

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

   For the purposes of this condition of registration, —

   "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated October 2014.

   the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated October 2014 is 1.06.

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

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

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

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

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

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

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

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

Conditions of Registration

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

For the purposes of this condition of registration,-

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

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

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

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2014.

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.

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 of Registration

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.

For the purposes of this condition of registration, 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.

12. That:

(a) the business and affairs of the bank are managed by, or under the direction and 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 decision 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 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

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

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

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

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

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

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

For the purposes of this condition, —

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

"SPV" means a person—

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

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

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

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

16. That—

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

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

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

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

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

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

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

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

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

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

19. That the bank has a compendium of liabilities that—

(a) at the product-class level lists all liabilities, indicating which are—

(i) pre-positioned for Open Bank Resolution; and

(ii) not pre-positioned for Open Bank Resolution;

(b) is agreed to by the Reserve Bank; and

(c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

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

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

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

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

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

23. That the bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.

24. That the bank must not provide a residential mortgage loan if the residential property to be mortgaged to the bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.

25. That the bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

Conditions of Registration

In these conditions of registration,—

“banking group”—

(a) 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 (unless paragraph (b) applies); or

(b) means ANZ Bank New Zealand Limited’s financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993) if the Financial Reporting Act 1993 applies to the bank:

“generally accepted accounting practice” —

(a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or

(b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the bank is required to prepare financial statements in accordance with that practice.

In conditions of registration 21 to 25, —

“loan-to-valuation ratio”, “loan value”, “property value”, “qualifying new mortgage lending amount” and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated October 2014:

“loan-to-valuation measurement period” means—

(a) the six calendar month period ending on the last day of March 2014; and

(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2014.

Noncompliance with Conditions of Registration

The Bank has identified that due to noncompliance with a documented internal process, the Bank was required to include the assets of The Bonus Bonds Trust and the ANZ PIE Fund, which are associated unit trusts of the Bank, in the risk weighted exposures for the Banking Group for capital adequacy purposes. As a result, the Bank was technically in a position of noncompliance with Condition of Registration 1B for a period of time. These assets are included in the Banking Group’s risk weighted exposures as at 30 September 2015 and, as at that date, the Bank was in full compliance with its Conditions of Registration. The Banking Group's capital ratios were not materially affected, and no additional capital is required to be held as a result of including these assets in the Banking Group’s risk weighted exposures. The Bank proactively brought this matter to the attention of the RBNZ, who have acknowledged that the matter is not material, is highly technical in nature, and that no further action is warranted on the part of the RBNZ.

Directorate and Auditor

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.

Directors' interests

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

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

b. Directors are also requested to make a general disclosure of their interest in other entities in terms of section 140(2) of the Companies Act 1993. In addition, they are requested to initiate a review of that disclosure if there are any significant alterations which occur subsequently during the period.

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

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

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 Members as at 18 November 2015

Independent Non-Executive Director and Chair

John Frederick Judge
B Com, FCA
Company Director
Auckland, New Zealand

Mr Judge is the Chair of the Human Resources Committee and a member of the Audit Committee and the Risk Committee.

Other directorships: Aquatx Holdings Limited, Biotelliga Limited, Biotelliga Holdings Limited, Biotelliga Nominees Limited, CIC28 Biotech Limited, Fletcher Building Limited, Fletcher Building Industries Limited, Janohn Limited, Sebca Limited, John Judge Limited, Cup Limited, Sails Friday Limited, The New Zealand Initiative Limited

Executive Director

David Duncan Hisco
B Bus, MBA
Chief Executive, ANZ Bank New Zealand Limited
Auckland, New Zealand

Other directorships: ANZ Holdings (New Zealand) Limited

Non-Executive Directors

Shayne Cary Elliott
B Com
Chief Financial Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Mr Elliott is a member of the Risk Committee and the Audit Committee.

Other directorships: ANZ Holdings (New Zealand) Limited

Michael Roger Pearson Smith, OBE
BSc (Hons) (City Lond), Hon LLD (Monash)
Chief Executive Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Mr Smith is a member of the Human Resources Committee.

Other directorships: Australia and New Zealand Banking Group Limited, The Financial Markets Foundation for Children, The Institute of International Finance Inc, The International Monetary Conference, Financial Literacy Australia Limited, Executive Chairman of Chongqinq Mayor's International Economic Advisory Council

Nigel Henry Murray Williams
BCom
Chief Risk Officer, Australia and New Zealand Banking Group Limited
Melbourne, Australia

Mr Williams is an alternate director for Michael Smith.

Other directorships: Shanghai Rural Commercial Bank Co. Limited

Directorate and Auditor

Independent Non-Executive Directors

Antony John Carter
BE (Hons), ME, FNZIM
Company Director
Auckland, New Zealand

Mr Carter is the Chair of the Risk Committee and a member of the Audit Committee and the Human Resources Committee.

Other directorships: Air New Zealand Limited, Avonhead Mall Limited, Blues Management Limited, Fletcher Building Limited, Fisher & Paykel Healthcare Corporation Limited, Fisher & Paykel Healthcare Employee Share Purchase Trustee Limited, Fletcher Building Industries Limited, Loughborough Investments Limited, Modern Merchants Limited, Strategic Interchange Limited, Tetrad Corporation Limited

Mark John Verbiest
LLB, CFInstD
Company Director
Wanaka, New Zealand

Mr Verbiest is the Chair of the Audit Committee and a member of the Human Resources Committee and the Risk Committee.

Other directorships: Bear Fund NZ Limited, Freightways Limited, Spark New Zealand Limited, Transpower New Zealand Limited, Willis Bond Capital Partners Limited, Willis Bond General Partner Limited, MyCare Limited

Joan Withers

MBA, AFInstD
Company Director
Auckland, New Zealand

Ms Withers is a member of the Human Resources Committee, the Risk Committee and the Audit Committee.

Other directorships: Mighty River Power Limited, Television New Zealand Limited

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Auditor

KPMG

Chartered Accountants
10 Customhouse Quay
P O Box 996
Wellington, New Zealand

Directors' Statement

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

(i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and

(ii) The Disclosure Statement is not false or misleading.

Over the year ended 30 September 2015, after due enquiry, each Director believes that:

(i) ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period except as noted on page 74;

(ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group;

(iii) 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, 18 November 2015.

Antony Carter

Shayne Elliott

David Hisco

John Judge

Michael Smith, OBE

Nigel Williams
(alternate director for Michael Smith)

Mark Verbiest

Joan Withers

KPMG

Independent auditor's report

To the Shareholder of ANZ Bank New Zealand Limited

Report on the Banking Group Disclosure Statement

We have audited the accompanying financial statements and supplementary information of ANZ Bank New Zealand Limited ("the Bank") and its subsidiaries ("Banking Group") on pages 3 to 66 of the Disclosure Statement. The financial statements comprise the balance sheet as at 30 September 2015, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Banking Group. The supplementary information comprises the information that is required to be disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the Order).

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder of the Bank those matters we are required to state to them in the 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 of the Bank as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the disclosure statement

The Directors are responsible on behalf of the Banking Group for the preparation of the Banking Group Disclosure Statement, including financial statements prepared in accordance with Clause 24 of the Order, generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Banking Group financial statements that are free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's responsibility

Our responsibility is to express an opinion on the disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order and the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Banking Group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Banking Group financial statements (excluding the supplementary information relating to Capital Adequacy). The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Banking Group's preparation of the financial statements that gives a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Disclosure Statement

In our opinion the Disclosure Statement of the Banking Group on pages 3 to 66 (excluding supplementary information):

a. complies with generally accepted accounting practice in New Zealand;

b. complies with International Financial Reporting Standards; and

c. presents fairly, in all material respects, the financial position as at 30 September 2015 and of their financial performance and cash flows for the year ended on that date.

Opinion on supplementary information

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order, and is included within notes 13, 17, 28, 30 and 34 of the Disclosure Statement:

a. has 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;

b. is in accordance with the books and records of the Banking Group in all material respects; and

c. fairly states the matters to which it relates in accordance with those Schedules.

Report on supplementary information relating to Capital Adequacy

We have reviewed the supplementary information relating to Capital Adequacy information, as disclosed in note 28 of the Disclosure Statement for the year ended 30 September 2015.

Directors' responsibility for the supplementary information relating to Capital Adequacy

The Directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 11 of the Order and prepared in accordance with the Capital Adequacy Framework (internal models based approach) (BS2B) and described in note 28 of the Disclosure Statement.

Auditor's responsibility

Our responsibility is to express an opinion on the supplementary information relating to Capital Adequacy based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the New Zealand External 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 supplementary information relating to Capital Adequacy information is, in all material respects:

a. prepared in accordance with the Bank's conditions of registration;

b. prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

c. disclosed in accordance with Schedule 11 of the Order.

A review is limited primarily to enquiries of the Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the Capital Adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

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

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy disclosures.

Review opinion on the supplementary information relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, and disclosed in note 28 of the Disclosure Statement, is not, in all material respects:

a. prepared in accordance with the Bank's conditions of registration;

b. prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

c. disclosed in accordance with Schedule 11 of the Order.

Independence

Our firm has 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. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

KPMG

Wellington
18 November 2015