

# ANZ Bank New Zealand Limited Registered Bank Disclosure Statement

FOR THE SIX MONTHS ENDED 31 MARCH 2015 | NUMBER 77 ISSUED MAY 2015

# Registered Bank Disclosure Statement

For the six months ended 31 March 2015

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## 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.

## General Disclosures

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

### Credit Rating Information

The Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations. The Bank's credit ratings 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 |

### Guarantors

No obligations of the Bank are guaranteed as at 14 May 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 31 March 2015 of \$4,382 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 7.

### Changes to Conditions of Registration

The conditions of registration applying to the Bank were amended on 1 October 2014 to refer to revised versions of the RBNZ documents *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B), *Connected Exposures Policy* (BS8) and *Framework for Restrictions on High-LVR Residential Mortgage Lending* (BS19).

### Directorate

As at 14 May 2015 there have been no changes to the Directors of the Bank since 30 September 2014, the balance date of the last full year disclosure statement.

### Auditor

The Banking Group's auditor is KPMG, Chartered Accountants, Level 9, 10 Customhouse Quay, Wellington, New Zealand.

## Income Statement

| \$ millions                                    | Note | Unaudited<br>6 months to<br>31/03/2015 | Unaudited<br>6 months to<br>31/03/2014 | Audited<br>Year to<br>30/09/2014 |
|--|------|--|--|----------------------------------|
| Interest income                                |      | 3,445                                  | 2,998                                  | 6,272                            |
| Interest expense                               |      | 2,022                                  | 1,644                                  | 3,529                            |
| Net interest income                            |      | <u>1,423</u>                           | <u>1,354</u>                           | <u>2,743</u>                     |
| Net trading gains                              |      | 149                                    | 94                                     | 210                              |
| Net funds management and insurance income      |      | 211                                    | 149                                    | 325                              |
| Other operating income                         | 2    | 230                                    | 278                                    | 547                              |
| Share of associates' profit                    |      | <u>1</u>                               | <u>1</u>                               | <u>3</u>                         |
| Operating income                               |      | 2,014                                  | 1,876                                  | 3,828                            |
| Operating expenses                             |      | <u>755</u>                             | <u>727</u>                             | <u>1,489</u>                     |
| Profit before credit impairment and income tax |      | 1,259                                  | 1,149                                  | 2,339                            |
| Credit impairment charge / (release)           | 5    | <u>30</u>                              | <u>(42)</u>                            | <u>(16)</u>                      |
| <b>Profit before income tax</b>                |      | <u>1,229</u>                           | <u>1,191</u>                           | <u>2,355</u>                     |
| Income tax expense                             |      | <u>340</u>                             | <u>324</u>                             | <u>639</u>                       |
| <b>Profit after income tax</b>                 |      | <u>889</u>                             | <u>867</u>                             | <u>1,716</u>                     |

## Statement of Comprehensive Income

| \$ millions   | Unaudited<br>6 months to<br>31/03/2015 | Unaudited<br>6 months to<br>31/03/2014 | Audited<br>Year to<br>30/09/2014 |
|---|--|--|----------------------------------|
| <b>Profit after income tax</b>  | <b>889</b>                             | 867                                    | 1,716                            |
| <b>Items that will not be reclassified to profit or loss</b>                  |  |  |                                  |
| Actuarial gain / (loss) on defined benefit schemes                            | (27)                                   | 24                                     | 35                               |
| Income tax credit / (expense) relating to items that will not be reclassified | 8                                      | (7)                                    | (10)                             |
| Total items that will not be reclassified to profit or loss                   | <u>(19)</u>                            | <u>17</u>                              | <u>25</u>                        |
| <b>Items that may be reclassified subsequently to profit or loss</b>          |  |  |                                  |
| Unrealised gains / (losses) recognised directly in equity                     | 7                                      | (16)                                   | (2)                              |
| Realised gains transferred to income statement                                | (13)                                   | (22)                                   | (41)                             |
| Income tax credit relating to items that may be reclassified                  | <u>2</u>                               | <u>10</u>                              | <u>12</u>                        |
| Total items that may be reclassified subsequently to profit or loss           | <u>(4)</u>                             | <u>(28)</u>                            | <u>(31)</u>                      |
| <b>Total comprehensive income for the period</b>                              | <u>866</u>                             | <u>856</u>                             | <u>1,710</u>                     |

## Statement of Changes in Equity

| \$ millions  | Share capital | Available-<br>for-sale<br>revaluation<br>reserve | Cash flow<br>hedging<br>reserve | Retained<br>earnings | Total equity  |
|--|---------------|--|---------------------------------|----------------------|---------------|
| As at 1 October 2013 (Audited)                                       | 7,243         | (2)  | 26                              | 4,187                | 11,454        |
| Profit after income tax  | -             | -  | -                               | 867                  | 867           |
| Unrealised gains / (losses) recognised directly in equity            | -             | 3  | (19)                            | -                    | (16)          |
| Realised gains transferred to the income statement                   | -             | -  | (22)                            | -                    | (22)          |
| Actuarial gain on defined benefit schemes                            | -             | -  | -                               | 24                   | 24            |
| Income tax credit / (expense) on items recognised directly in equity | -             | (1)  | 11                              | (7)                  | 3             |
| <b>Total comprehensive income for the period</b>                     | <b>-</b>      | <b>2</b>   | <b>(30)</b>                     | <b>884</b>           | <b>856</b>    |
| Ordinary dividend paid   | -             | -  | -                               | (540)                | (540)         |
| Preference dividend paid   | -             | -  | -                               | (5)                  | (5)           |
| <b>As at 31 March 2014 (Unaudited)</b>                               | <b>7,243</b>  | <b>-</b>   | <b>(4)</b>                      | <b>4,526</b>         | <b>11,765</b> |
| As at 1 October 2013 (Audited)                                       | 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             |
| <b>Total comprehensive income for the period</b>                     | <b>-</b>      | <b>2</b>   | <b>(33)</b>                     | <b>1,741</b>         | <b>1,710</b>  |
| Ordinary dividend paid   | -             | -  | -                               | (2,340)              | (2,340)       |
| Preference dividend paid   | -             | -  | -                               | (13)                 | (13)          |
| Ordinary shares issued   | 970           | -  | -                               | -                    | 970           |
| <b>As at 30 September 2014 (Audited)</b>                             | <b>8,213</b>  | <b>-</b>   | <b>(7)</b>                      | <b>3,575</b>         | <b>11,781</b> |
| Profit after income tax  | -             | -  | -                               | 889                  | 889           |
| Unrealised gains recognised directly in equity                       | -             | 1  | 6                               | -                    | 7             |
| Realised gains transferred to the income statement                   | -             | -  | (13)                            | -                    | (13)          |
| Actuarial loss on defined benefit schemes                            | -             | -  | -                               | (27)                 | (27)          |
| Income tax credit on items recognised directly in equity             | -             | -  | 2                               | 8                    | 10            |
| <b>Total comprehensive income for the period</b>                     | <b>-</b>      | <b>1</b>   | <b>(5)</b>                      | <b>870</b>           | <b>866</b>    |
| Ordinary dividend paid   | -             | -  | -                               | (1,015)              | (1,015)       |
| Preference dividend paid   | -             | -  | -                               | (7)                  | (7)           |
| <b>As at 31 March 2015 (Unaudited)</b>                               | <b>8,213</b>  | <b>1</b>   | <b>(12)</b>                     | <b>3,423</b>         | <b>11,625</b> |

## Balance Sheet

| \$ millions  | Note | Unaudited<br>31/03/2015 | Unaudited<br>31/03/2014 | Audited<br>30/09/2014 |
|--|------|-------------------------|-------------------------|-----------------------|
| <b>Assets</b>                                      |      |                         |                         |                       |
| Cash   |      | 2,457                   | 1,717                   | 1,822                 |
| Settlement balances receivable                     |      | 601                     | 705                     | 855                   |
| Collateral paid                                    |      | 2,123                   | 1,367                   | 783                   |
| Trading securities                                 |      | 12,215                  | 12,090                  | 11,750                |
| Investments backing insurance contract liabilities |      | 210                     | 165                     | 190                   |
| Derivative financial instruments                   |      | 10,961                  | 8,744                   | 11,404                |
| Current tax assets                                 |      | 4                       | 33                      | -                     |
| Available-for-sale assets                          |      | 903                     | 667                     | 772                   |
| Net loans and advances                             | 4    | 100,695                 | 93,391                  | 96,299                |
| Other assets                                       |      | 711                     | 604                     | 648                   |
| Life insurance contract assets                     |      | 554                     | 431                     | 470                   |
| Investments in associates                          |      | 89                      | 89                      | 88                    |
| Premises and equipment                             |      | 372                     | 373                     | 380                   |
| Goodwill and other intangible assets               |      | 3,462                   | 3,449                   | 3,454                 |
| <b>Total assets</b>                                |      | <b>135,357</b>          | <b>123,825</b>          | <b>128,915</b>        |
| Interest earning and discount bearing assets       |      | 118,819                 | 109,757                 | 111,914               |
| <b>Liabilities</b>                                 |      |                         |                         |                       |
| Settlement balances payable                        |      | 1,611                   | 1,533                   | 2,296                 |
| Collateral received                                |      | 364                     | 452                     | 800                   |
| Deposits and other borrowings                      | 8    | 88,142                  | 81,457                  | 84,019                |
| Derivative financial instruments                   |      | 12,007                  | 9,645                   | 10,205                |
| Current tax liabilities                            |      | -                       | -                       | 67                    |
| Deferred tax liabilities                           |      | 96                      | 15                      | 60                    |
| Payables and other liabilities                     |      | 1,296                   | 1,213                   | 1,297                 |
| Provisions   |      | 189                     | 211                     | 204                   |
| Debt issuances                                     |      | 17,686                  | 16,405                  | 17,042                |
| Subordinated debt                                  | 9    | 2,341                   | 1,129                   | 1,144                 |
| <b>Total liabilities</b>                           |      | <b>123,732</b>          | <b>112,060</b>          | <b>117,134</b>        |
| <b>Net assets</b>                                  |      | <b>11,625</b>           | <b>11,765</b>           | <b>11,781</b>         |
| <b>Equity</b>                                      |      |                         |                         |                       |
| Share capital                                      |      | 8,213                   | 7,243                   | 8,213                 |
| Reserves   |      | (11)                    | (4)                     | (7)                   |
| Retained earnings                                  |      | 3,423                   | 4,526                   | 3,575                 |
| <b>Total equity</b>                                |      | <b>11,625</b>           | <b>11,765</b>           | <b>11,781</b>         |
| Interest and discount bearing liabilities          |      | 103,041                 | 94,188                  | 97,809                |

## Condensed Cash Flow Statement

| \$ millions  | Unaudited<br>6 months to<br>31/03/2015 | Unaudited<br>6 months to<br>31/03/2014 | Audited<br>Year to<br>30/09/2014 |
|--|--|--|----------------------------------|
| <b>Cash flows from operating activities</b>  |  |  |                                  |
| Interest received  | 3,384                                  | 2,955                                  | 6,189                            |
| Interest paid  | (2,072)                                | (1,649)                                | (3,429)                          |
| Other cash inflows provided by operating activities                                  | 450                                    | 505                                    | 951                              |
| Other cash outflows used in operating activities                                     | (1,085)                                | (1,012)                                | (1,898)                          |
| Cash flows from operating profits before changes in operating assets and liabilities | 677                                    | 799                                    | 1,813                            |
| Net changes in operating assets and liabilities                                      | (1,195)                                | (984)                                  | (536)                            |
| <b>Net cash flows provided by / (used in) operating activities</b>                   | <b>(518)</b>                           | <b>(185)</b>                           | <b>1,277</b>                     |
| <b>Cash flows from investing activities</b>  |  |  |                                  |
| Cash inflows provided by investing activities  | -                                      | 10                                     | 18                               |
| Cash outflows used in investing activities   | (44)                                   | (44)                                   | (120)                            |
| <b>Net cash flows used in investing activities</b>                                   | <b>(44)</b>                            | <b>(34)</b>                            | <b>(102)</b>                     |
| <b>Cash flows from financing activities</b>  |  |  |                                  |
| Cash inflows provided by financing activities  | 3,971                                  | 2,918                                  | 5,401                            |
| Cash outflows used in financing activities   | (2,764)                                | (3,178)                                | (6,950)                          |
| <b>Net cash flows provided by / (used in) financing activities</b>                   | <b>1,207</b>                           | <b>(260)</b>                           | <b>(1,549)</b>                   |
| Net increase / (decrease) in cash and cash equivalents                               | 645                                    | (479)                                  | (374)                            |
| Cash and cash equivalents at beginning of the period                                 | 1,830                                  | 2,204                                  | 2,204                            |
| <b>Cash and cash equivalents at end of the period</b>                                | <b>2,475</b>                           | <b>1,725</b>                           | <b>1,830</b>                     |

## Notes to the Financial Statements

### 1. Significant Accounting Policies

#### (i) Reporting entity and statement of compliance

These interim financial statements are for the Banking Group for the six months ended 31 March 2015. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice as appropriate for profit oriented entities, the requirements of NZ IAS 34 *Interim Financial Reporting*, IAS 34 *Interim Financial Reporting* and the Order, and should be read in conjunction with the Banking Group's financial statements for the year ended 30 September 2014.

#### (ii) Basis of measurement

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

- derivative financial instruments, including in the case of fair value hedging, the fair value of any applicable underlying exposure;
- financial instruments held for trading;
- financial assets treated as available-for-sale; and
- financial instruments designated at fair value through profit and loss.

#### (iii) Changes in accounting policies

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the previous full year Disclosure Statement.

#### (iv) Presentation currency and rounding

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

#### (v) Comparatives

Amounts in the cash flow statement for cash and cash equivalents and net changes in operating assets and liabilities have been updated for the revised definition of cash and cash equivalents applied in the previous full year Disclosure Statement.

#### (vi) Principles of consolidation

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

### 2. Other Operating Income

| \$millions  | Unaudited<br>6 months to<br>31/03/2015 | Unaudited<br>6 months to<br>31/03/2014 | Audited<br>Year to<br>30/09/2014 |
|---|--|--|----------------------------------|
| Net fee income  | 203                                    | 207                                    | 408                              |
| Fair value gain / (loss) on hedging activities and financial liabilities designated at fair value | 7                                      | (15)                                   | 35                               |
| Insurance settlement relating to ING Diversified Yield Fund and ING Regular Income Fund           | -                                      | 91                                     | 91                               |
| Loss on sale of mortgages to NZ Branch  | (2)                                    | (14)                                   | (23)                             |
| Other income  | 22                                     | 9                                      | 36                               |
| Total other operating income  | <u>230</u>                             | <u>278</u>                             | <u>547</u>                       |



## Notes to the Financial Statements

### 3. 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.

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

#### Retail

Retail provides products and services to personal customers via the branch network, mortgage specialists, the contact centre and a variety of self-service channels (internet banking, phone banking, ATMs, website and mobile phone banking). Core products include current and savings accounts, unsecured lending (credit cards, personal loans and overdrafts) and home loans secured by mortgages over property. Retail distributes insurance and investment products on behalf of the Wealth segment.

#### Commercial

Commercial provides services to Business Banking, Commercial & Agri, and UDC customers. Business Banking

services are offered to small enterprises (typically with annual revenues of less than \$5 million). Commercial & Agri customers consist of primarily privately owned medium to large enterprises. The Banking Group'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.

#### Business segment analysis<sup>1</sup>

| \$ millions                             | Retail | Commercial | Wealth <sup>2</sup> | Institutional | Other <sup>3</sup> | Total |
|---|--------|------------|---------------------|---------------|--------------------|-------|
| <b>Unaudited 6 months to 31/03/2015</b> |        |            |                     |               |                    |       |
| External revenues                       | 476    | 1,556      | 72                  | 461           | (551)              | 2,014 |
| Intersegment revenues                   | 159    | (789)      | 84                  | (127)         | 673                | -     |
| Total revenues                          | 635    | 767        | 156                 | 334           | 122                | 2,014 |
| Profit after income tax                 | 223    | 365        | 67                  | 166           | 68                 | 889   |
| <b>Unaudited 6 months to 31/03/2014</b> |        |            |                     |               |                    |       |
| External revenues                       | 513    | 1,356      | 152                 | 397           | (542)              | 1,876 |
| Intersegment revenues                   | 93     | (642)      | 76                  | (79)          | 552                | -     |
| Total revenues                          | 606    | 714        | 228                 | 318           | 10                 | 1,876 |
| Profit after income tax                 | 207    | 370        | 121                 | 164           | 5                  | 867   |
| <b>Audited year to 30/09/2014</b>       |        |            |                     |               |                    |       |
| External revenues                       | 991    | 2,850      | 211                 | 802           | (1,026)            | 3,828 |
| Intersegment revenues                   | 225    | (1,395)    | 165                 | (177)         | 1,182              | -     |
| Total revenues                          | 1,216  | 1,455      | 376                 | 625           | 156                | 3,828 |
| Profit after income tax                 | 412    | 717        | 181                 | 320           | 86                 | 1,716 |

<sup>1</sup> Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

<sup>2</sup> Wealth external revenues for the six months to 31 March 2014 and year to 30 September 2014 includes the \$91 million insurance settlement relating to the Bank's former involvement in the ING Diversified Yield fund and the ING Regular Income Fund.

<sup>3</sup> This segment has negative external revenues as this segment incurs funding costs on behalf of the Banking Group and is reimbursed internally.

## Notes to the Financial Statements

### 4. Net Loans and Advances

| \$ millions  | Note | Unaudited<br>31/03/2015 | Unaudited<br>31/03/2014 | Audited<br>30/09/2014 |
|--|------|-------------------------|-------------------------|-----------------------|
| Overdrafts   |      | 1,640                   | 1,789                   | 1,744                 |
| Credit card outstandings                             |      | 1,639                   | 1,525                   | 1,580                 |
| Term loans - housing                                 |      | 55,679                  | 51,396                  | 52,717                |
| Term loans - non-housing                             |      | 41,017                  | 38,521                  | 39,622                |
| Lease receivables                                    |      | 255                     | 112                     | 277                   |
| Hire purchase  |      | 878                     | 768                     | 837                   |
| Other  |      | 125                     | 125                     | 125                   |
| Total gross loans and advances                       |      | <b>101,233</b>          | 94,236                  | 96,902                |
| Less: Provision for credit impairment                | 5    | (638)                   | (722)                   | (666)                 |
| Less: Unearned income                                |      | (215)                   | (351)                   | (212)                 |
| Add: Capitalised brokerage/mortgage origination fees |      | 253                     | 176                     | 208                   |
| Add: Customer liability for acceptances              |      | 62                      | 52                      | 67                    |
| Total net loans and advances                         |      | <b>100,695</b>          | 93,391                  | 96,299                |

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of \$8,323 million as at 31 March 2015 (31/03/2014 \$9,175 million, 30/09/2014 \$9,176 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

### 5. Provision for Credit Impairment

#### Credit impairment charge / (release)

| \$ millions                                     | Retail<br>mortgages | Other retail<br>exposures | Non-retail<br>exposures | Total |
|---|---------------------|---------------------------|-------------------------|-------|
| <b>Unaudited 31/03/2015</b>                     |                     |                           |                         |       |
| New and increased provisions                    | 12                  | 50                        | 41                      | 103   |
| Write-backs                                     | (16)                | (9)                       | (31)                    | (56)  |
| Recoveries of amounts written off previously    | (1)                 | (10)                      | (1)                     | (12)  |
| Individual credit impairment charge / (release) | (5)                 | 31                        | 9                       | 35    |
| Collective credit impairment release            | -                   | (1)                       | (4)                     | (5)   |
| Credit impairment charge / (release)            | (5)                 | 30                        | 5                       | 30    |
| <b>Unaudited 31/03/2014</b>                     |                     |                           |                         |       |
| New and increased provisions                    | 22                  | 62                        | 45                      | 129   |
| Write-backs                                     | (26)                | (10)                      | (60)                    | (96)  |
| Recoveries of amounts written off previously    | (1)                 | (9)                       | (5)                     | (15)  |
| Individual credit impairment charge / (release) | (5)                 | 43                        | (20)                    | 18    |
| Collective credit impairment release            | (11)                | (3)                       | (46)                    | (60)  |
| Credit impairment charge / (release)            | (16)                | 40                        | (66)                    | (42)  |
| <b>Audited 30/09/2014</b>                       |                     |                           |                         |       |
| New and increased provisions                    | 50                  | 120                       | 111                     | 281   |
| Write-backs                                     | (44)                | (21)                      | (112)                   | (177) |
| Recoveries of amounts written off previously    | (2)                 | (20)                      | (7)                     | (29)  |
| Individual credit impairment charge / (release) | 4                   | 79                        | (8)                     | 75    |
| Collective credit impairment charge / (release) | (23)                | 1                         | (69)                    | (91)  |
| Credit impairment charge / (release)            | (19)                | 80                        | (77)                    | (16)  |

## Notes to the Financial Statements

### Movement in provision for credit impairment

| \$ millions                                     | Retail mortgages | Other retail exposures | Non-retail exposures | Total      |
|---|------------------|------------------------|----------------------|------------|
| <b>Unaudited 31/03/2015</b>                     |                  |                        |                      |            |
| <b>Collective provision</b>                     |                  |                        |                      |            |
| Balance at beginning of the period              | 78               | 118                    | 255                  | 451        |
| Release to income statement                     | -                | (1)                    | (4)                  | (5)        |
| Balance at end of the period                    | <u>78</u>        | <u>117</u>             | <u>251</u>           | <u>446</u> |
| <b>Individual provision</b>                     |                  |                        |                      |            |
| Balance at beginning of the period              | 72               | 15                     | 128                  | 215        |
| New and increased provisions net of write-backs | (4)              | 41                     | 10                   | 47         |
| Bad debts written off                           | -                | (44)                   | (21)                 | (65)       |
| Discount unwind                                 | (2)              | -                      | (3)                  | (5)        |
| Balance at end of the period                    | <u>66</u>        | <u>12</u>              | <u>114</u>           | <u>192</u> |
| Total provision for credit impairment           | <u>144</u>       | <u>129</u>             | <u>365</u>           | <u>638</u> |
| <b>Unaudited 31/03/2014</b>                     |                  |                        |                      |            |
| <b>Collective provision</b>                     |                  |                        |                      |            |
| Balance at beginning of the period              | 101              | 117                    | 324                  | 542        |
| Release to income statement                     | (11)             | (3)                    | (46)                 | (60)       |
| Balance at end of the period                    | <u>90</u>        | <u>114</u>             | <u>278</u>           | <u>482</u> |
| <b>Individual provision</b>                     |                  |                        |                      |            |
| Balance at beginning of the period              | 74               | 22                     | 188                  | 284        |
| New and increased provisions net of write-backs | (4)              | 52                     | (15)                 | 33         |
| Bad debts written off                           | -                | (55)                   | (25)                 | (80)       |
| Discount unwind reversal / (discount unwind)    | (2)              | -                      | 5                    | 3          |
| Balance at end of the period                    | <u>68</u>        | <u>19</u>              | <u>153</u>           | <u>240</u> |
| Total provision for credit impairment           | <u>158</u>       | <u>133</u>             | <u>431</u>           | <u>722</u> |
| <b>Audited 30/09/2014</b>                       |                  |                        |                      |            |
| <b>Collective provision</b>                     |                  |                        |                      |            |
| Balance at beginning of the year                | 101              | 117                    | 324                  | 542        |
| Charge / (release) to income statement          | (23)             | 1                      | (69)                 | (91)       |
| Balance at end of the year                      | <u>78</u>        | <u>118</u>             | <u>255</u>           | <u>451</u> |
| <b>Individual provision</b>                     |                  |                        |                      |            |
| Balance at beginning of the year                | 74               | 22                     | 188                  | 284        |
| New and increased provisions net of write-backs | 6                | 99                     | (1)                  | 104        |
| Bad debts written off                           | (3)              | (106)                  | (67)                 | (176)      |
| Discount unwind reversal / (discount unwind)    | (5)              | -                      | 8                    | 3          |
| Balance at end of the year                      | <u>72</u>        | <u>15</u>              | <u>128</u>           | <u>215</u> |
| Total provision for credit impairment           | <u>150</u>       | <u>133</u>             | <u>383</u>           | <u>666</u> |

## Notes to the Financial Statements

### 6. Impaired Assets and Past Due Assets

| \$ millions                                | Retail mortgages | Other retail exposures | Non-retail exposures | Total      |
|--|------------------|------------------------|----------------------|------------|
| <b>Unaudited 31/03/2015</b>                |                  |                        |                      |            |
| Balance at beginning of the period         | 189              | 35                     | 410                  | 634        |
| Transfers from productive                  | 39               | 61                     | 59                   | 159        |
| Transfers to productive                    | (46)             | (4)                    | (33)                 | (83)       |
| Assets realised or loans repaid            | (53)             | (13)                   | (105)                | (171)      |
| Write offs                                 | -                | (44)                   | (21)                 | (65)       |
| <b>Total impaired assets</b>               | <b>129</b>       | <b>35</b>              | <b>310</b>           | <b>474</b> |
| Undrawn facilities with impaired customers | 1                | -                      | 19                   | 20         |
| <b>Unaudited 31/03/2014</b>                |                  |                        |                      |            |
| Balance at beginning of the period         | 179              | 49                     | 666                  | 894        |
| Transfers from productive                  | 88               | 78                     | 129                  | 295        |
| Transfers to productive                    | (19)             | (1)                    | (60)                 | (80)       |
| Assets realised or loans repaid            | (68)             | (19)                   | (171)                | (258)      |
| Write offs                                 | -                | (55)                   | (25)                 | (80)       |
| <b>Total impaired assets</b>               | <b>180</b>       | <b>52</b>              | <b>539</b>           | <b>771</b> |
| Undrawn facilities with impaired customers | -                | 1                      | 34                   | 35         |
| <b>Audited 30/09/2014</b>                  |                  |                        |                      |            |
| Balance at beginning of the year           | 179              | 49                     | 673                  | 901        |
| Transfers from productive                  | 178              | 138                    | 299                  | 615        |
| Transfers to productive                    | (41)             | (4)                    | (153)                | (198)      |
| Assets realised or loans repaid            | (124)            | (42)                   | (342)                | (508)      |
| Write offs                                 | (3)              | (106)                  | (67)                 | (176)      |
| <b>Total impaired assets</b>               | <b>189</b>       | <b>35</b>              | <b>410</b>           | <b>634</b> |
| Undrawn facilities with impaired customers | 1                | -                      | 38                   | 39         |

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

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security should be 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.

#### Ageing analysis of loans that are past due but not impaired

| \$ millions                 | Retail mortgages | Other retail exposures | Non-retail exposures | Total        |
|-----------------------------|------------------|------------------------|----------------------|--------------|
| <b>Unaudited 31/03/2015</b> |                  |                        |                      |              |
| 1 to 5 days                 | 351              | 116                    | 569                  | 1,036        |
| 6 to 29 days                | 212              | 99                     | 80                   | 391          |
| 1 to 29 days                | 563              | 215                    | 649                  | 1,427        |
| 30 to 59 days               | 158              | 37                     | 103                  | 298          |
| 60 to 89 days               | 65               | 17                     | 38                   | 120          |
| 90 days or over             | 115              | 37                     | 50                   | 202          |
|                             | <b>901</b>       | <b>306</b>             | <b>840</b>           | <b>2,047</b> |

## Notes to the Financial Statements

### 7. Financial Assets Pledged as Collateral

| \$ millions   | Unaudited<br>31/03/2015 | Unaudited<br>31/03/2014 | Audited<br>30/09/2014 |
|---|-------------------------|-------------------------|-----------------------|
| Cash collateral given on derivative financial instruments                             | 2,123                   | 1,367                   | 783                   |
| Trading securities encumbered through repurchase agreements                           | 43                      | 32                      | 47                    |
| Residential mortgages pledged as security for covered bonds                           | 7,010                   | 6,780                   | 7,283                 |
| Total assets of UDC Finance Limited pledged as collateral for UDC secured investments | 2,423                   | 2,272                   | 2,354                 |
| Total financial assets pledged as collateral  | <b>11,599</b>           | <b>10,451</b>           | <b>10,467</b>         |

#### 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.

### 8. Deposits and Other Borrowings

| \$ millions  | Note | Unaudited<br>31/03/2015 | Unaudited<br>31/03/2014 | Audited<br>30/09/2014 |
|--|------|-------------------------|-------------------------|-----------------------|
| Certificates of deposit                              |      | 1,462                   | 1,604                   | 1,376                 |
| Term deposits  |      | 34,855                  | 34,869                  | 34,758                |
| Other deposits bearing interest and other borrowings |      | 37,591                  | 31,833                  | 34,027                |
| Deposits not bearing interest                        |      | 6,263                   | 5,833                   | 6,001                 |
| Deposits from banks                                  |      | 43                      | 361                     | 226                   |
| Commercial paper                                     |      | 6,273                   | 5,401                   | 6,057                 |
| UDC secured investments                              | 7    | 1,629                   | 1,534                   | 1,569                 |
| Deposits from other members of ANZ New Zealand       |      | 26                      | 22                      | 5                     |
| Total deposits and other borrowings                  |      | <b>88,142</b>           | <b>81,457</b>           | <b>84,019</b>         |

## Notes to the Financial Statements

### 9. Subordinated Debt

| \$ millions  | Unaudited<br>31/03/2015 | Unaudited<br>31/03/2014 | Audited<br>30/09/2014 |
|--|-------------------------|-------------------------|-----------------------|
| <b>ANZ Capital Notes<sup>1</sup></b>                                     |                         |                         |                       |
| ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)                      | 1,003                   | -                       | -                     |
| ANZ New Zealand Capital Notes (ANZ NZ CN) <sup>2</sup>                   | 494                     | -                       | -                     |
| <b>Perpetual subordinated debt</b>                                       |                         |                         |                       |
| NZD 835,000,000 perpetual subordinated bond <sup>2,3</sup>               | 835                     | 835                     | 835                   |
| AUD 265,740,000 perpetual subordinated floating rate loan <sup>3,4</sup> | -                       | 283                     | 298                   |
| AUD 10,000,000 perpetual subordinated floating rate loan                 | 10                      | 11                      | 11                    |
| Total subordinated debt issued   | <b>2,342</b>            | 1,129                   | 1,144                 |
| Less subordinated debt instruments held by the Bank                      | (1)                     | -                       | -                     |
| Total subordinated debt  | <b>2,341</b>            | 1,129                   | 1,144                 |

<sup>1</sup> These instruments qualify as additional tier 1 capital.

<sup>2</sup> 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).

<sup>3</sup> These instruments qualify as tier 2 capital under RBNZ's transitional rules. Refer to Note 11 for further details.

<sup>4</sup> This loan was repaid on 16 March 2015. Interest was payable half yearly in arrears at BBSW + 0.95% p.a.

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

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

As at 31 March 2015, ANZ NZ CN carried a BBB- credit rating from Standard and Poor's.

The notes are classified as debt given there are circumstances 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) beyond the Bank's control.

#### 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 on its ordinary shares

or undertake a share buy-back or other capital reduction 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.

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

## Notes to the Financial Statements

considers that the Ultimate Parent Bank would become non-viable.

On 25 May 2020 the Bank has the right to, subject to satisfying certain conditions, redeem (subject to receiving RBNZ's and APRA's prior approval), or 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 to, subject to satisfying certain conditions, redeem (subject to receiving RBNZ's prior approval), or 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 half yearly 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 set on a quarterly basis to the three month FRA rate plus 3.00%.

As at 31 March 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 was 9.66% until 18 April 2013 when it reset to 5.28% for the five year period to 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 half yearly 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 BBSW + 2.4% p.a., increasing to BBSW + 4.4% p.a. from 15 September 2018.

## 10. Related Party Balances

| \$ millions                    | Unaudited  | Unaudited  | Audited    |
|--------------------------------|------------|------------|------------|
|                                | 31/03/2015 | 31/03/2014 | 30/09/2014 |
| Total due from related parties | 2,960      | 2,921      | 4,116      |
| Total due to related parties   | 4,173      | 4,999      | 4,834      |

## Notes to the Financial Statements

### 11. Capital Adequacy

| Basel III capital ratios     | Banking Group |            |            | Bank       |            |            |
|------------------------------|---------------|------------|------------|------------|------------|------------|
|                              | 31/03/2015    | 31/03/2014 | 30/09/2014 | 31/03/2015 | 31/03/2014 | 30/09/2014 |
| <b>Unaudited</b>             |               |            |            |            |            |            |
| Common equity tier 1 capital | 10.1%         | 10.7%      | 10.7%      | 8.8%       | 9.3%       | 9.4%       |
| Tier 1 capital               | 12.4%         | 11.1%      | 11.1%      | 11.2%      | 9.8%       | 9.8%       |
| Total capital                | 13.3%         | 12.4%      | 12.3%      | 12.2%      | 11.1%      | 11.1%      |
| Buffer ratio                 | 5.3%          | 4.4%       | 4.3%       |            |            |            |
| <b>RBNZ minimum ratios:</b>  |               |            |            |            |            |            |
| Common equity tier 1 capital | 4.5%          | 4.5%       | 4.5%       |            |            |            |
| Tier 1 capital               | 6.0%          | 6.0%       | 6.0%       |            |            |            |
| Total capital                | 8.0%          | 8.0%       | 8.0%       |            |            |            |
| Buffer requirement           | 2.5%          | 2.5%       | 2.5%       |            |            |            |

### Capital of the Banking Group

|  | Unaudited<br>31/03/2015 |
|--|-------------------------|
| <b>\$ millions</b>   |                         |
| <b>Tier 1 capital</b>  |                         |
| <i>Common equity tier 1 capital</i>  |                         |
| Paid up ordinary shares issued by the Bank   | 7,913                   |
| Retained earnings (net of appropriations)  | 3,423                   |
| Accumulated other comprehensive income and other disclosed reserves  | (11)                    |
| <i>Less deductions from common equity tier 1 capital</i>   |                         |
| Goodwill and intangible assets, net of associated deferred tax liabilities                                     | (3,449)                 |
| Cash flow hedge reserve  | 12                      |
| Expected losses to the extent greater than total eligible allowances for impairment                            | (229)                   |
| Common equity tier 1 capital   | <u>7,659</u>            |
| <i>Additional tier 1 capital</i>   |                         |
| Preference shares  | 300                     |
| ANZ Capital Notes <sup>2</sup>   | 1,503                   |
| Additional tier 1 capital  | <u>1,803</u>            |
| Total tier 1 capital   | <u>9,462</u>            |
| <b>Tier 2 capital</b>  |                         |
| <i>Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements</i> |                         |
| NZD 835,000,000 perpetual subordinated bond <sup>2</sup>   | 835                     |
| <i>Less deductions from tier 2 capital</i>   |                         |
| Basel III transition adjustment <sup>1</sup>   | (133)                   |
| Total tier 2 capital   | <u>702</u>              |
| Total capital  | <u>10,164</u>           |

<sup>1</sup> 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.

<sup>2</sup> A summary of the terms of these instruments is included in note 9.



## Notes to the Financial Statements

### Terms of ordinary share capital

All ordinary shares share equally in dividends and any proceeds available to ordinary shareholders on the 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.

### Terms of preference shares

All preference shares were issued on 25 September 2013 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 share dividend payment date if the Directors elect to not pay a dividend on the preference shares.

Should the Bank elect to pay a dividend, the dividend is payable at 72% of BKBM + 3.25% p.a., with dividend payments scheduled to be made in March and September each year.

#### Redemption features

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

- 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 an RBNZ non-viability trigger event, as defined in the RBNZ document Capital Adequacy Framework (Internal Models Based Approach) (BS2B), occur.

#### Rights of holders in event of liquidation

In the event of a liquidation of the Bank, 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.

### Capital requirements of the Banking Group

| \$ millions  | Exposure at default | Risk weighted exposure or implied risk weighted exposure <sup>1</sup> | Total capital requirement |
|--|---------------------|---|---------------------------|
| <b>Unaudited 31/03/2015</b>                                |                     |   |                           |
| Exposures subject to internal ratings based approach       | 136,722             | 53,614  | 4,289                     |
| Specialised lending exposures subject to slotting approach | 9,479               | 8,812   | 705                       |
| Exposures subject to standardised approach                 | 1,731               | 337   | 27                        |
| Equity exposures   | 91                  | 386   | 31                        |
| Other exposures  | 3,736               | 1,602   | 128                       |
| Total credit risk  | 151,759             | 64,751  | 5,180                     |
| Operational risk   | n/a                 | 5,496   | 440                       |
| Market risk  | n/a                 | 5,946   | 475                       |
| Total  | 151,759             | 76,193  | 6,095                     |

<sup>1</sup> 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).

### Capital requirements by asset class under the IRB approach

|   | Total exposure<br>or principal<br>amount<br>\$m | Exposure at<br>default<br>\$m | Exposure-<br>weighted LGD<br>used for the<br>capital<br>calculation<br>% | Exposure-<br>weighted risk<br>weight<br>% | Risk weighted<br>exposure<br>\$m | Total capital<br>requirement<br>\$m |
|---|---|-------------------------------|--|---|----------------------------------|-------------------------------------|
| Unaudited 31/03/2015                                    |   |                               |  |   |                                  |                                     |
| <b>On-balance sheet exposures</b>                       |   |                               |  |   |                                  |                                     |
| Corporate   | 34,497  | 34,408                        | 36   | 54  | 19,663                           | 1,573                               |
| Sovereign   | 10,328  | 10,152                        | 5  | 1   | 112                              | 8                                   |
| Bank  | 4,695   | 3,353                         | 60   | 26  | 922                              | 74                                  |
| Retail mortgages  | 53,693  | 53,951                        | 21   | 25  | 14,195                           | 1,136                               |
| Other retail  | 4,859   | 4,962                         | 76   | 98  | 5,135                            | 411                                 |
| Total on-balance sheet exposures                        | 108,072   | 106,826                       | 28   | 35  | 40,027                           | 3,202                               |
| <b>Off-balance sheet exposures</b>                      |   |                               |  |   |                                  |                                     |
| Corporate   | 12,396  | 10,218                        | 50   | 49  | 5,357                            | 429                                 |
| Sovereign   | 73  | 34                            | 5  | 1   | -                                | -                                   |
| Bank  | 1,376   | 967                           | 50   | 16  | 161                              | 13                                  |
| Retail mortgages  | 7,307   | 7,651                         | 18   | 17  | 1,367                            | 109                                 |
| Other retail  | 5,665   | 5,315                         | 79   | 56  | 3,151                            | 252                                 |
| Total off-balance sheet exposures                       | 26,817  | 24,185                        | 46   | 39  | 10,036                           | 803                                 |
| <b>Market related contracts</b>                         |   |                               |  |   |                                  |                                     |
| Corporate   | 93,567  | 2,030                         | 61   | 83  | 1,793                            | 143                                 |
| Sovereign   | 10,355  | 391                           | 5  | 32  | 131                              | 11                                  |
| Bank  | 611,692   | 3,290                         | 62   | 47  | 1,627                            | 130                                 |
| Total market related contracts                          | 715,614   | 5,711                         | 58   | 59  | 3,551                            | 284                                 |
| Total credit risk exposures subject to the IRB approach | 850,503   | 136,722                       | 32   | 37  | 53,614                           | 4,289                               |

## Notes to the Financial Statements

### IRB exposures by customer credit rating

| Unaudited 31/03/2015                                    | Probability of default<br>% | Exposure at default<br>\$m | Exposure-weighted LGD used for the capital calculation<br>% | Exposure-weighted risk weight<br>% | Risk weighted exposure<br>\$m | Total capital requirement<br>\$m |
|---|-----------------------------|----------------------------|---|------------------------------------|-------------------------------|----------------------------------|
| <b>Corporate</b>  |                             |                            |   |                                    |                               |                                  |
| 0 - 2   | 0.05                        | 5,353                      | 63  | 35                                 | 1,963                         | 157                              |
| 3 - 4   | 0.31                        | 24,841                     | 37  | 41                                 | 10,859                        | 869                              |
| 5   | 1.01                        | 10,368                     | 37  | 66                                 | 7,234                         | 579                              |
| 6   | 2.23                        | 4,367                      | 38  | 82                                 | 3,812                         | 305                              |
| 7 - 8   | 7.58                        | 1,283                      | 42  | 145                                | 1,972                         | 158                              |
| Default   | 100.00                      | 444                        | 48  | 207                                | 973                           | 77                               |
| Total corporate exposures                               | 1.77                        | 46,656                     | 40  | 54                                 | 26,813                        | 2,145                            |
| <b>Sovereign</b>  |                             |                            |   |                                    |                               |                                  |
| 0   | 0.01                        | 10,463                     | 5   | 2                                  | 241                           | 19                               |
| 1 - 8   | 0.02                        | 114                        | 5   | 2                                  | 2                             | -                                |
| Total sovereign exposures                               | 0.01                        | 10,577                     | 5   | 2                                  | 243                           | 19                               |
| <b>Bank</b>   |                             |                            |   |                                    |                               |                                  |
| 0   | 0.03                        | 31                         | 65  | 12                                 | 4                             | -                                |
| 1   | 0.03                        | 6,223                      | 59  | 31                                 | 2,052                         | 164                              |
| 2 - 4   | 0.08                        | 1,336                      | 61  | 45                                 | 631                           | 50                               |
| 5 - 8   | 1.26                        | 20                         | 65  | 108                                | 23                            | 3                                |
| Total bank exposures                                    | 0.04                        | 7,610                      | 60  | 34                                 | 2,710                         | 217                              |
| <b>Retail mortgages</b>                                 |                             |                            |   |                                    |                               |                                  |
| 0 - 3   | 0.20                        | 13,784                     | 12  | 5                                  | 702                           | 56                               |
| 4   | 0.46                        | 21,383                     | 19  | 15                                 | 3,319                         | 265                              |
| 5   | 0.92                        | 20,351                     | 25  | 33                                 | 7,152                         | 572                              |
| 6   | 2.03                        | 5,158                      | 29  | 65                                 | 3,566                         | 285                              |
| 7 - 8   | 5.28                        | 517                        | 29  | 110                                | 602                           | 48                               |
| Default   | 100.00                      | 409                        | 25  | 51                                 | 221                           | 19                               |
| Total retail mortgages exposures                        | 1.39                        | 61,602                     | 20  | 24                                 | 15,562                        | 1,245                            |
| <b>Other retail</b>                                     |                             |                            |   |                                    |                               |                                  |
| 0 - 2   | 0.10                        | 652                        | 78  | 48                                 | 334                           | 27                               |
| 3 - 4   | 0.26                        | 4,398                      | 78  | 55                                 | 2,544                         | 203                              |
| 5   | 0.99                        | 1,880                      | 72  | 72                                 | 1,428                         | 114                              |
| 6   | 2.36                        | 1,782                      | 77  | 96                                 | 1,813                         | 145                              |
| 7 - 8   | 8.92                        | 1,478                      | 86  | 132                                | 2,068                         | 165                              |
| Default   | 100.00                      | 87                         | 80  | 105                                | 99                            | 9                                |
| Total other retail exposures                            | 2.84                        | 10,277                     | 78  | 76                                 | 8,286                         | 663                              |
| Total credit risk exposures subject to the IRB approach | 1.44                        | 136,722                    | 32  | 37                                 | 53,614                        | 4,289                            |

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 31/03/2015              | Exposure at default<br>\$m | Risk weight<br>% | Risk weighted exposure<br>\$m | Total capital requirement<br>\$m |
|-----------------------------------|----------------------------|------------------|-------------------------------|----------------------------------|
| <b>On-balance sheet exposures</b> |                            |                  |                               |                                  |
| Strong                            | 2,666                      | 70               | 1,978                         | 158                              |
| Good                              | 4,823                      | 90               | 4,601                         | 368                              |
| Satisfactory                      | 668                        | 115              | 815                           | 65                               |
| Weak                              | 149                        | 250              | 394                           | 32                               |
| Default                           | 97                         | -                | -                             | -                                |
| Total on-balance sheet exposures  | <b>8,403</b>               | <b>87</b>        | <b>7,788</b>                  | <b>623</b>                       |

|   | Exposure amount<br>\$m | Exposure at default<br>\$m | Average risk weight<br>% | Risk weighted exposure<br>\$m | Total capital requirement<br>\$m |
|---|------------------------|----------------------------|--------------------------|-------------------------------|----------------------------------|
| <b>Off-balance sheet exposures</b>                        |                        |                            |                          |                               |                                  |
| Undrawn commitments and other off balance sheet exposures | 1,328                  | 987                        | 87                       | 911                           | 73                               |
| Market related contracts                                  | 2,241                  | 89                         | 120                      | 113                           | 9                                |
| Total off-balance sheet exposures                         | <b>3,569</b>           | <b>1,076</b>               | <b>90</b>                | <b>1,024</b>                  | <b>82</b>                        |

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 31/03/2015              | Exposure at default<br>\$m | Risk weight<br>% | Risk weighted exposure<br>\$m | Total capital requirement<br>\$m |
|-----------------------------------|----------------------------|------------------|-------------------------------|----------------------------------|
| <b>On-balance sheet exposures</b> |                            |                  |                               |                                  |
| Corporates                        | 58                         | 100              | 61                            | 5                                |
| Default                           | 1                          | 150              | 1                             | -                                |
| Total on-balance sheet exposures  | <b>59</b>                  | <b>101</b>       | <b>62</b>                     | <b>5</b>                         |

|   | Exposure amount<br>\$m | Average credit conversion factor<br>% | Exposure at default<br>\$m | Average risk weight<br>% | Risk weighted exposure<br>\$m | Total capital requirement<br>\$m |
|---|------------------------|---------------------------------------|----------------------------|--------------------------|-------------------------------|----------------------------------|
| <b>Off-balance sheet exposures</b>                        |                        |                                       |                            |                          |                               |                                  |
| Undrawn commitments and other off balance sheet exposures | 545                    | 48                                    | 260                        | 89                       | 244                           | 20                               |
| Market related contracts                                  | 395,774                | -                                     | 1,412                      | 2                        | 31                            | 2                                |
| Total off balance sheet                                   | <b>396,319</b>         | <b>n/a</b>                            | <b>1,672</b>               | <b>16</b>                | <b>275</b>                    | <b>22</b>                        |

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

### Equity exposures

| Unaudited 31/03/2015                          | Exposure at default<br>\$m | Risk weight<br>% | Risk weighted exposure<br>\$m | Total capital requirement<br>\$m |
|---|----------------------------|------------------|-------------------------------|----------------------------------|
| All equity holdings not deducted from capital | 91                         | 400              | 386                           | 31                               |

Equity exposures have been calculated in accordance with BS2B.

## Notes to the Financial Statements

### Other exposures

| Unaudited 31/03/2015  | Exposure at default<br>\$m | Risk weight<br>% | Risk weighted exposure<br>\$m | Total capital requirement<br>\$m |
|---|----------------------------|------------------|-------------------------------|----------------------------------|
| Cash  | 271                        | -                | -                             | -                                |
| New Zealand dollar denominated claims on the Crown and the RBNZ | 1,953                      | -                | -                             | -                                |
| Other assets  | 1,512                      | 100              | 1,602                         | 128                              |
| Total other IRB credit risk exposures                           | 3,736                      | 40               | 1,602                         | 128                              |

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 31 March 2015, under the IRB approach, the Banking Group had \$1,042 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 31 March 2015 the Banking Group had an implied risk weighted exposure of \$5,496 million for operational risk and an operational risk capital requirement of \$440 million.

### Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B. The peak end-of-day market risk exposures are for the half-year ended 31 March 2015.

| \$ millions           | Implied risk weighted exposure |       | Aggregate capital charge |      | Peak occurred on |
|-----------------------|--------------------------------|-------|--------------------------|------|------------------|
|                       | Period end                     | Peak  | Period end               | Peak |                  |
| Unaudited 31/03/2015  |                                |       |                          |      |                  |
| Interest rate risk    | 5,863                          | 7,615 | 469                      | 609  | 12/11/2014       |
| Foreign currency risk | 81                             | 132   | 6                        | 11   | 9/12/2014        |
| Equity risk           | 2                              | 2     | -                        | -    | 28/01/2015       |
|                       | <u>5,946</u>                   |       | <u>475</u>               |      |                  |

### Pillar II capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process (ICAAP) which complies with the requirements of the Bank's Conditions of Registration.

Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier 1 and total capital ratios. The other material risks identified by the Banking Group include pension risk, insurance risk, strategic equity risk, fixed asset risk, deferred acquisition cost risk, value in-force risk, business retention risk and software risk.

The Banking Group's internal capital allocation for these other material risks is \$437 million (31/03/2014 \$471 million; 30/09/2014 \$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 to software, strategic equity and value in-force risk) were applied in March 2015 and prior periods restated accordingly.

## Notes to the Financial Statements

### Capital adequacy of the Ultimate Parent Bank

#### Basel III capital ratios

|                              | Overseas Banking Group |            |            | Ultimate Parent Bank<br>(Extended Licensed Entity) |            |            |
|------------------------------|------------------------|------------|------------|--|------------|------------|
|                              | 31/03/2015             | 31/03/2014 | 30/09/2014 | 31/03/2015   | 31/03/2014 | 30/09/2014 |
| <b>Unaudited</b>             |                        |            |            |  |            |            |
| Common equity tier 1 capital | 8.7%                   | 8.3%       | 8.8%       | 8.8%   | 8.3%       | 9.1%       |
| Tier 1 capital               | 10.6%                  | 10.3%      | 10.7%      | 10.9%  | 10.6%      | 11.3%      |
| Total capital                | 12.6%                  | 12.1%      | 12.7%      | 13.1%  | 12.5%      | 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 31 March 2015 and for the comparative prior periods.

The Overseas Banking Group is required to publicly disclose Pillar 3 financial information as at 31 March 2015. The Overseas Banking Group's Pillar 3 disclosure document for the quarter ended 31 March 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](http://anz.com).

#### 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<br>\$ millions<br>LVR range | 31/03/2015       |                   | Total  |
|---------------------------------------|------------------|-------------------|--------|
|                                       | On-balance sheet | Off-balance sheet |        |
| Does not exceed 60%                   | 20,241           | 3,823             | 24,064 |
| Exceeds 60% and not 70%               | 10,102           | 1,139             | 11,241 |
| Exceeds 70% and not 80%               | 16,711           | 1,858             | 18,569 |
| Does not exceed 80%                   | 47,054           | 6,820             | 53,874 |
| Exceeds 80% and not 90%               | 4,378            | 242               | 4,620  |
| Exceeds 90%                           | 2,261            | 245               | 2,506  |
| Total                                 | 53,693           | 7,307             | 61,000 |

#### Reconciliation of mortgage related amounts

| Unaudited<br>\$ millions  | Note | 31/03/2015 |
|---|------|------------|
| Term loans - housing  | 4    | 55,679     |
| Less: fair value hedging adjustment   |      | (65)       |
| Add: short-term housing loans classified as overdrafts                            |      | 471        |
| Less: housing loans made to corporate customers                                   |      | (2,431)    |
| Add: Unsettled re-purchases of mortgages from the NZ Branch                       |      | 39         |
| On-balance sheet retail mortgage exposures subject to the IRB approach            | 11   | 53,693     |
| Add: off-balance sheet retail mortgage exposures subject to the IRB approach      |      | 7,307      |
| Total retail mortgage exposures subject to the IRB approach (as per LVR analysis) | 11   | 61,000     |

## Notes to the Financial Statements

### 12. Financial Risk Management

#### 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.

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

| Unaudited 31/03/2015<br>\$ millions                    | Cash,<br>settlements<br>receivable and<br>collateral paid | Trading<br>securities and<br>available-for-<br>sale assets | Derivative<br>financial<br>instruments | Net loans and<br>advances <sup>3</sup> | Other<br>financial<br>assets | Credit related<br>commitments <sup>4</sup> | Total          |
|--|---|--|--|--|------------------------------|--|----------------|
| <b>Industry</b>  |   |  |  |  |                              |  |                |
| Agriculture  | -   | -  | 12                                     | 17,714                                 | 79                           | 1,556                                      | 19,361         |
| Forestry, fishing and mining                           | -   | -  | 15                                     | 1,087                                  | 5                            | 903  | 2,010          |
| Business and property services                         | -   | 1  | 19                                     | 9,748                                  | 43                           | 2,815                                      | 12,626         |
| Construction   | -   | -  | 2                                      | 1,389                                  | 6                            | 931  | 2,328          |
| Entertainment, leisure and tourism                     | -   | -  | 32                                     | 1,097                                  | 5                            | 215  | 1,349          |
| Finance and insurance                                  | 3,228   | 5,765  | 9,430                                  | 1,154                                  | 355                          | 1,387                                      | 21,319         |
| Government and local authority <sup>1</sup>            | 1,953   | 7,302  | 605                                    | 1,204                                  | 5                            | 1,139                                      | 12,208         |
| Manufacturing  | -   | -  | 201                                    | 3,415                                  | 15                           | 1,733                                      | 5,364          |
| Personal lending                                       | -   | -  | -                                      | 57,742                                 | 257                          | 17,830                                     | 75,829         |
| Retail trade   | -   | -  | 37                                     | 1,930                                  | 9                            | 988  | 2,964          |
| Transport and storage                                  | -   | 2  | 64                                     | 1,434                                  | 6                            | 653  | 2,159          |
| Wholesale trade  | -   | -  | 15                                     | 1,473                                  | 7                            | 1,232                                      | 2,727          |
| Other <sup>2</sup>                                     | -   | 48   | 529                                    | 1,908                                  | 8                            | 1,577                                      | 4,070          |
|  | <b>5,181</b>  | <b>13,118</b>  | <b>10,961</b>                          | <b>101,295</b>                         | <b>800</b>                   | <b>32,959</b>                              | <b>164,314</b> |
| Less: Provision for credit impairment                  | -   | -  | -                                      | (557)                                  | -                            | (81)                                       | (638)          |
| Less: Unearned income                                  | -   | -  | -                                      | (215)                                  | -                            | -  | (215)          |
| Add: Capitalised brokerage / mortgage origination fees | -   | -  | -                                      | 253                                    | -                            | -  | 253            |
| <b>Total financial assets</b>                          | <b>5,181</b>  | <b>13,118</b>  | <b>10,961</b>                          | <b>100,776</b>                         | <b>800</b>                   | <b>32,878</b>                              | <b>163,714</b> |
| <b>Geography</b>                                       |   |  |  |  |                              |  |                |
| New Zealand  | 3,161   | 8,681  | 2,410                                  | 98,684                                 | 791                          | 32,715                                     | 146,442        |
| Overseas   | 2,020   | 4,437  | 8,551                                  | 2,092                                  | 9                            | 163  | 17,272         |
| <b>Total financial assets</b>                          | <b>5,181</b>  | <b>13,118</b>  | <b>10,961</b>                          | <b>100,776</b>                         | <b>800</b>                   | <b>32,878</b>                              | <b>163,714</b> |

<sup>1</sup> Government and local authority includes exposures to government administration and defence, education and health and community services.

<sup>2</sup> Other includes exposures to electricity, gas and water, communications and personal services.

<sup>3</sup> Excludes individual and collective provisions for credit impairment held in respect of credit related commitments.

<sup>4</sup> Credit related commitments comprise undrawn facilities, customer contingent liabilities and letters of offer.

## Notes to the Financial Statements

### Interest rate sensitivity gap

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.

| Unaudited 31/03/2015<br>\$ millions | Total          | Up to<br>3 months | Over 3 to<br>6 months | Over 6 to<br>12 months | Over 1 to<br>2 years | Over<br>2 years | Not bearing<br>interest |
|-------------------------------------|----------------|-------------------|-----------------------|------------------------|----------------------|-----------------|-------------------------|
| <b>Assets</b>                       |                |                   |                       |                        |                      |                 |                         |
| Cash                                | 2,457          | 2,186             | -                     | -                      | -                    | -               | 271                     |
| Settlement balances receivable      | 601            | 43                | -                     | -                      | -                    | -               | 558                     |
| Collateral paid                     | 2,123          | 2,123             | -                     | -                      | -                    | -               | -                       |
| Trading securities                  | 12,215         | 1,285             | 1,056                 | 564                    | 620                  | 8,690           | -                       |
| Derivative financial instruments    | 10,961         | -                 | -                     | -                      | -                    | -               | 10,961                  |
| Available-for-sale assets           | 903            | 586               | 10                    | 57                     | -                    | 248             | 2                       |
| Net loans and advances              | 100,695        | 55,390            | 6,583                 | 9,784                  | 19,994               | 9,390           | (446)                   |
| Other financial assets              | 800            | 175               | 23                    | 7                      | -                    | 5               | 590                     |
| <b>Total financial assets</b>       | <b>130,755</b> | <b>61,788</b>     | <b>7,672</b>          | <b>10,412</b>          | <b>20,614</b>        | <b>18,333</b>   | <b>11,936</b>           |
| <b>Liabilities</b>                  |                |                   |                       |                        |                      |                 |                         |
| Settlement balances payable         | 1,611          | 488               | -                     | -                      | -                    | -               | 1,123                   |
| Collateral received                 | 364            | 364               | -                     | -                      | -                    | -               | -                       |
| Deposits and other borrowings       | 88,142         | 60,312            | 9,466                 | 7,733                  | 2,698                | 1,669           | 6,264                   |
| Derivative financial instruments    | 12,007         | -                 | -                     | -                      | -                    | -               | 12,007                  |
| Debt issuances                      | 17,686         | 4,218             | 2,000                 | 2,866                  | 1,083                | 7,519           | -                       |
| Subordinated debt                   | 2,341          | -                 | 1,014                 | -                      | -                    | 1,327           | -                       |
| Payables and other liabilities      | 811            | 42                | -                     | -                      | 2                    | 240             | 527                     |
| <b>Total financial liabilities</b>  | <b>122,962</b> | <b>65,424</b>     | <b>12,480</b>         | <b>10,599</b>          | <b>3,783</b>         | <b>10,755</b>   | <b>19,921</b>           |
| <b>Hedging instruments</b>          | <b>-</b>       | <b>28,764</b>     | <b>(12,360)</b>       | <b>760</b>             | <b>(16,082)</b>      | <b>(1,082)</b>  | <b>-</b>                |
| <b>Interest sensitivity gap</b>     | <b>7,793</b>   | <b>25,128</b>     | <b>(17,168)</b>       | <b>573</b>             | <b>749</b>           | <b>6,496</b>    | <b>(7,985)</b>          |

### Liquidity portfolio

The Banking Group holds a diversified portfolio of cash and high quality liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy and includes both items classified as cash and those classified as operating assets in the Condensed Cash Flow Statement.

| Unaudited 31/03/2015<br>\$ millions            | Cash         | Trading<br>Securities | Available-for-<br>sale securities | Total         |
|--|--------------|-----------------------|-----------------------------------|---------------|
| Cash and balances with central banks           | 2,235        | -                     | -                                 | 2,235         |
| Securities purchased under agreement to resell | 186          | -                     | -                                 | 186           |
| Certificates of deposit                        | -            | 17                    | 263                               | 280           |
| Government, local body stock and bonds         | -            | 4,896                 | 524                               | 5,420         |
| Government treasury bills                      | -            | 1,390                 | 26                                | 1,416         |
| Other bonds                                    | -            | 5,460                 | -                                 | 5,460         |
| <b>Total liquidity portfolio</b>               | <b>2,421</b> | <b>11,763</b>         | <b>813</b>                        | <b>14,997</b> |

The Bank also held unencumbered internal residential mortgage backed securities which would entitle the Banking Group to enter into repurchase transactions with a value of \$5,731 million at 31 March 2015.



## Notes to the Financial Statements

### 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.

Analysis of funding liabilities by industry sector is based on ANZSIC codes.

| \$ millions   | Unaudited<br>31/03/2015 |
|---|-------------------------|
| <b>Funding composition</b>                                |                         |
| <b>Customer deposits<sup>1</sup></b>                      |                         |
| New Zealand   | 71,294                  |
| Overseas  | 9,044                   |
| Total customer deposits                                   | <u>80,338</u>           |
| <b>Wholesale funding</b>                                  |                         |
| Debt issuances  | 17,686                  |
| Subordinated debt   | 2,341                   |
| Certificates of deposit                                   | 1,462                   |
| Commercial paper  | 6,273                   |
| Other borrowings  | 69                      |
| Total wholesale funding                                   | <u>27,831</u>           |
| Total funding   | <u>108,169</u>          |
| <b>Concentrations of funding by industry</b>              |                         |
| Households  | 51,025                  |
| Agriculture   | 3,025                   |
| Forestry, fishing and mining                              | 625                     |
| Manufacturing   | 1,439                   |
| Entertainment, leisure and tourism                        | 985                     |
| Finance and insurance                                     | 36,572                  |
| Retail trade  | 1,025                   |
| Wholesale trade   | 1,423                   |
| Business and property services                            | 5,922                   |
| Transport and storage                                     | 735                     |
| Construction  | 1,114                   |
| Government and local authority                            | 2,748                   |
| Other <sup>2</sup>  | 1,531                   |
| Total funding   | <u>108,169</u>          |
| <b>Concentrations of funding by geography<sup>3</sup></b> |                         |
| New Zealand   | 78,084                  |
| Australia   | 1,081                   |
| United States   | 13,036                  |
| Europe  | 9,357                   |
| Other countries   | 6,611                   |
| Total funding   | <u>108,169</u>          |

<sup>1</sup> Comprises term deposits, other deposits bearing interest and other borrowings, deposits not bearing interest and UDC secured investments

<sup>2</sup> Other includes exposures to electricity, gas and water, communications and personal services.

<sup>3</sup> Funding via ANZ New Zealand (Int'l) Limited is classified as either from the United States or Europe, as the company conducts overseas funding activities through its London branch which is passed through to the Bank.

## 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 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 and 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 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.

| Unaudited 31/03/2015<br>\$ millions  | Total          | At call         | Up to<br>3 months | Over 3 to<br>12 months | Over 1 to<br>5 years | Over<br>5 years | No maturity<br>specified |
|--|----------------|-----------------|-------------------|------------------------|----------------------|-----------------|--------------------------|
| <b>Financial assets</b>  |                |                 |                   |                        |                      |                 |                          |
| Cash   | 2,458          | 2,224           | 234               | -                      | -                    | -               | -                        |
| Settlement balances receivable   | 601            | 43              | 558               | -                      | -                    | -               | -                        |
| Collateral paid  | 2,123          | -               | 2,123             | -                      | -                    | -               | -                        |
| Trading securities   | 13,592         | -               | 626               | 1,992                  | 9,096                | 1,878           | -                        |
| Derivative financial assets (trading)                                      | 10,280         | -               | 10,280            | -                      | -                    | -               | -                        |
| Available-for-sale assets  | 942            | -               | 518               | 49                     | 373                  | -               | 2                        |
| Net loans and advances   | 139,711        | 223             | 16,387            | 14,648                 | 49,158               | 59,295          | -                        |
| Other financial assets   | 350            | -               | 315               | 30                     | 5                    | -               | -                        |
| <b>Total financial assets</b>  | <b>170,057</b> | <b>2,490</b>    | <b>31,041</b>     | <b>16,719</b>          | <b>58,632</b>        | <b>61,173</b>   | <b>2</b>                 |
| <b>Financial liabilities</b>   |                |                 |                   |                        |                      |                 |                          |
| Settlement balances payable  | 1,611          | 729             | 882               | -                      | -                    | -               | -                        |
| Collateral received  | 364            | -               | 364               | -                      | -                    | -               | -                        |
| Deposits and other borrowings  | 89,772         | 44,132          | 21,319            | 19,465                 | 4,856                | -               | -                        |
| Derivative financial liabilities (trading)                                 | 10,063         | -               | 10,063            | -                      | -                    | -               | -                        |
| Debt issuances   | 18,420         | -               | 368               | 5,588                  | 11,167               | 1,297           | -                        |
| Subordinated debt  | 3,991          | -               | 39                | 117                    | 644                  | 850             | 2,341                    |
| Other financial liabilities  | 450            | -               | 97                | 14                     | 213                  | 126             | -                        |
| <b>Total financial liabilities</b>   | <b>124,671</b> | <b>44,861</b>   | <b>33,132</b>     | <b>25,184</b>          | <b>16,880</b>        | <b>2,273</b>    | <b>2,341</b>             |
| <b>Derivative financial instruments used for balance sheet management</b>  |                |                 |                   |                        |                      |                 |                          |
| - gross inflows  | 15,091         | -               | 853               | 3,771                  | 8,757                | 1,710           | -                        |
| - gross outflows   | (16,115)       | -               | (821)             | (3,875)                | (9,623)              | (1,796)         | -                        |
| <b>Net financial assets / (liabilities) after balance sheet management</b> | <b>44,362</b>  | <b>(42,371)</b> | <b>(2,059)</b>    | <b>(8,569)</b>         | <b>40,886</b>        | <b>58,814</b>   | <b>(2,339)</b>           |

### Contractual maturity of off-balance sheet commitments and contingent liabilities

| Unaudited 31/03/2015<br>\$ millions | Total         | Less than<br>1 year | Beyond<br>1 year |
|-------------------------------------|---------------|---------------------|------------------|
| Non-credit related commitments      | 472           | 63                  | 409              |
| Credit related commitments          | 30,663        | 30,663              | -                |
| Contingent liabilities              | 2,296         | 2,296               | -                |
| <b>Total</b>                        | <b>33,431</b> | <b>33,022</b>       | <b>409</b>       |

## Notes to the Financial Statements

### 13. Fair Value Measurements

#### Financial assets and financial liabilities not measured at fair value

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

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

| \$ millions                                | Unaudited<br>31/03/2015 |            | Unaudited<br>31/03/2014 |            | Audited<br>30/09/2014 |            |
|--|-------------------------|------------|-------------------------|------------|-----------------------|------------|
|  | Carrying amount         | Fair value | Carrying amount         | Fair value | Carrying amount       | Fair value |
| <b>Assets</b>                              |                         |            |                         |            |                       |            |
| Net loans and advances <sup>1</sup>        | 100,695                 | 101,043    | 93,391                  | 93,383     | 96,299                | 96,397     |
| <b>Liabilities</b>                         |                         |            |                         |            |                       |            |
| Deposits and other borrowings <sup>2</sup> | 88,142                  | 88,215     | 81,457                  | 81,468     | 84,019                | 84,042     |
| Debt issuances <sup>1</sup>                | 17,686                  | 17,862     | 16,405                  | 16,583     | 17,042                | 17,225     |
| Subordinated debt                          | 2,341                   | 2,343      | 1,129                   | 1,098      | 1,144                 | 1,137      |

<sup>1</sup> Fair value hedging is applied to certain financial instruments within these categories. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

<sup>2</sup> Includes commercial paper (note 8) designated at fair value through profit or loss.

#### Financial assets and financial liabilities measured at fair value in the balance sheet

The Banking Group uses a valuation method within the following hierarchy to determine the carrying amount of assets and liabilities held at fair value, all of which are recurring fair value measurements. There are no assets or liabilities measured at fair value on a non-recurring basis.

- 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).

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

#### Valuation hierarchy

Unaudited 31/03/2015

| \$ millions   | Unaudited<br>31/03/2015 |         |         |        | Unaudited<br>31/03/2014 |         |         |        | Audited<br>30/09/2014 |         |         |        |
|---|-------------------------|---------|---------|--------|-------------------------|---------|---------|--------|-----------------------|---------|---------|--------|
|   | Level 1                 | Level 2 | Level 3 | Total  | Level 1                 | Level 2 | Level 3 | Total  | Level 1               | Level 2 | Level 3 | Total  |
| <b>Financial assets</b>   |                         |         |         |        |                         |         |         |        |                       |         |         |        |
| Trading securities  | 12,153                  | 62      | -       | 12,215 | 12,062                  | 28      | -       | 12,090 | 11,659                | 91      | -       | 11,750 |
| Derivative financial instruments                                | 12                      | 10,949  | -       | 10,961 | 7                       | 8,737   | -       | 8,744  | 2                     | 11,402  | -       | 11,404 |
| Available-for-sale assets <sup>1</sup>                          | 581                     | 321     | 1       | 903    | 665                     | -       | 2       | 667    | 712                   | 58      | 2       | 772    |
| Investments backing insurance contract liabilities <sup>1</sup> | 3                       | 207     | -       | 210    | 114                     | 51      | -       | 165    | 129                   | 61      | -       | 190    |
| Total financial assets held at fair value                       | 12,749                  | 11,539  | 1       | 24,289 | 12,848                  | 8,816   | 2       | 21,666 | 12,502                | 11,612  | 2       | 24,116 |
| <b>Financial liabilities</b>                                    |                         |         |         |        |                         |         |         |        |                       |         |         |        |
| Deposits and other borrowings                                   | -                       | 6,273   | -       | 6,273  | -                       | 5,401   | -       | 5,401  | -                     | 6,057   | -       | 6,057  |
| Derivative financial instruments                                | 6                       | 12,001  | -       | 12,007 | 4                       | 9,641   | -       | 9,645  | 5                     | 10,200  | -       | 10,205 |
| Payables and other liabilities                                  | 221                     | -       | -       | 221    | 222                     | -       | -       | 222    | 226                   | -       | -       | 226    |
| Total financial liabilities held at fair value                  | 227                     | 18,274  | -       | 18,501 | 226                     | 15,042  | -       | 15,268 | 231                   | 16,257  | -       | 16,488 |

<sup>1</sup> During the period, available-for-sale assets of \$159 million and Investments backing insurance contract liabilities of \$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.

## Notes to the Financial Statements

### 14. 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.

For the six months ended 31 March 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 the Banking Group's equity as at the end of the period.

### 15. Insurance Business

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

The Banking Group's aggregate amount of insurance business comprises the total consolidated assets of OnePath Life (NZ) Limited of \$958 million (31/03/2014: \$787 million; 30/09/2014 \$850 million), which is 0.7% (31/03/2014: 0.6%; 30/09/2014 0.7%) of the total consolidated assets of the Banking Group.

### 16. Credit Related Commitments, Guarantees and Contingent Liabilities

| \$ millions   | Face or contract value  |                         |                       |
|---|-------------------------|-------------------------|-----------------------|
|   | Unaudited<br>31/03/2015 | Unaudited<br>31/03/2014 | Audited<br>30/09/2014 |
| <b>Credit related commitments</b>                     |                         |                         |                       |
| Commitments with certain drawdown due within one year | 1,348                   | 1,073                   | 764                   |
| Commitments to provide financial services             | 29,315                  | 25,816                  | 27,378                |
| Total credit related commitments                      | <b>30,663</b>           | <b>26,889</b>           | <b>28,142</b>         |
| <b>Guarantees and contingent liabilities</b>          |                         |                         |                       |
| Financial guarantees                                  | 906                     | 985                     | 925                   |
| Standby letters of credit                             | 52                      | 60                      | 79                    |
| Transaction related contingent items                  | 1,245                   | 1,222                   | 1,321                 |
| Trade related contingent liabilities                  | 93                      | 66                      | 111                   |
| Total guarantees and contingent liabilities           | <b>2,296</b>            | <b>2,333</b>            | <b>2,436</b>          |

The Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its Ultimate Parent Bank. To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as for customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

#### 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.

On 3 December 2014, the Commerce Commission and the Financial Markets Authority (FMA) announced settlements with the Bank relating to the Commission's and the FMA's investigations into the promotion, sale and offer of interest rate swaps to rural customers from 2005 to 2009; the settlement includes a payment fund of \$18.5 million and a contribution to the Commission's and the FMA's costs.

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.

## 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 six months ended 31 March 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;
- (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 or on behalf of all Directors of the Bank on, 14 May 2015.**

**Antony Carter**



**Shayne Elliott**



**David Hisco**



**Mark Verbiest**

(also on behalf of John Judge, Michael Smith and Joan Withers)



**Nigel Williams**

(alternate director for Michael Smith)





## Independent Auditor's Review Report

### To the Shareholder of ANZ Bank New Zealand Limited

We have reviewed pages 3 to 27 of the interim financial statements of ANZ Bank New Zealand Limited (the Bank) and its subsidiary companies (the Banking Group) prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the Order) and the supplementary information prescribed in Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order. The interim financial statements, and supplementary information, provide information about the past financial performance and cash flows of the Banking Group and its financial position as at 31 March 2015.

#### Directors' responsibility for the disclosure statement

The Directors of ANZ Bank New Zealand Limited are responsible for the preparation and presentation of the Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order which give a true and fair view of the financial position of the Banking Group as at 31 March 2015 and its financial performance and cash flows for the six months ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of the Disclosure Statement that is free from material misstatement whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the Disclosure Statement which fairly states the matters to which it relates in accordance with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

#### Reviewer's responsibility

We are responsible for reviewing the interim financial statements and the supplementary information, disclosed in accordance with Clause 25, Schedules 5, 7, 11, 13, 16 and 18 of the Order and presented to us by the Directors.

Our responsibility is to express a conclusion on the interim financial statements (excluding the supplementary information) 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*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with NZ IAS 34: *Interim Financial Reporting*. 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.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the information disclosed in accordance with Schedule 11 is not in all material respects prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and disclosed in accordance with Schedule 11 of the Order.

A review of interim financial statements 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 those financial statements.

KPMG has also provided other audit related services to the Banking Group. In addition, certain 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 Banking Group. These matters have not impaired our independence as auditors of the Banking Group. We have no other relationship with, or interest in, the Banking Group.

#### Review opinion

We have examined the interim financial statements including the supplementary information and based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- a. the interim financial statements (excluding the supplementary information) do not present fairly, in all material respects, the financial position of the Banking Group as at 31 March 2015 and its financial performance and cash flows for the six months ended on that date in accordance with NZ IAS 34: *Interim Financial Reporting*;
- b. the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and
- c. the supplementary information relating to capital adequacy as required by Schedule 11 of the Order, is not in all material respects prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand, and disclosed in accordance with Schedule 11 of the Order.

Our review was completed on 14 May 2015 and our review opinion is expressed as at that date.

14 May 2015  
Wellington



