

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

Statement of Comprehensive Income

\$ millions	Unaudited 6 months to 31/03/2015	Unaudited 6 months to 31/03/2014	Audited Year to 30/09/2014
Profit after income tax	889	867	1,716
Items that will not be reclassified to profit or loss			
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	(19)	17	25
Items that may be reclassified subsequently to profit or loss			
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	2	10	12
Total items that may be reclassified subsequently to profit or loss	(4)	(28)	(31)
Total comprehensive income for the period	866	856	1,710

Statement of Changes in Equity

\$ millions	Share capital	Available- for-sale revaluation reserve	Cash flow hedging reserve	Retained 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
Total comprehensive income for the period	-	2	(30)	884	856
Ordinary dividend paid	-	-	-	(540)	(540)
Preference dividend paid	-	-	-	(5)	(5)
As at 31 March 2014 (Unaudited)	7,243	-	(4)	4,526	11,765
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
Total comprehensive income for the period	-	2	(33)	1,741	1,710
Ordinary dividend paid	-	-	-	(2,340)	(2,340)
Preference dividend paid	-	-	-	(13)	(13)
Ordinary shares issued	970	-	-	-	970
As at 30 September 2014 (Audited)	8,213	-	(7)	3,575	11,781
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
Total comprehensive income for the period	-	1	(5)	870	866
Ordinary dividend paid	-	-	-	(1,015)	(1,015)
Preference dividend paid	-	-	-	(7)	(7)
As at 31 March 2015 (Unaudited)	8,213	1	(12)	3,423	11,625

Balance Sheet

\$ millions	Note	Unaudited 31/03/2015	Unaudited 31/03/2014	Audited 30/09/2014
Assets				
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
Total assets		135,357	123,825	128,915
Interest earning and discount bearing assets		118,819	109,757	111,914
Liabilities				
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
Total liabilities		123,732	112,060	117,134
Net assets		11,625	11,765	11,781
Equity				
Share capital		8,213	7,243	8,213
Reserves		(11)	(4)	(7)
Retained earnings		3,423	4,526	3,575
Total equity		11,625	11,765	11,781
Interest and discount bearing liabilities		103,041	94,188	97,809

Condensed Cash Flow Statement

\$ millions	Unaudited 6 months to 31/03/2015	Unaudited 6 months to 31/03/2014	Audited Year to 30/09/2014
Cash flows from operating activities			
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)
Net cash flows provided by / (used in) operating activities	(518)	(185)	1,277
Cash flows from investing activities			
Cash inflows provided by investing activities	-	10	18
Cash outflows used in investing activities	(44)	(44)	(120)
Net cash flows used in investing activities	(44)	(34)	(102)
Cash flows from financing activities			
Cash inflows provided by financing activities	3,971	2,918	5,401
Cash outflows used in financing activities	(2,764)	(3,178)	(6,950)
Net cash flows provided by / (used in) financing activities	1,207	(260)	(1,549)
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
Cash and cash equivalents at end of the period	2,475	1,725	1,830

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 6 months to 31/03/2015	Unaudited 6 months to 31/03/2014	Audited Year to 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 analysis¹

\$ millions	Retail	Commercial	Wealth ²	Institutional	Other ³	Total
Unaudited 6 months to 31/03/2015						
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
Unaudited 6 months to 31/03/2014						
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
Audited year to 30/09/2014						
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

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

² 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.

³ 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 31/03/2015	Unaudited 31/03/2014	Audited 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		101,233	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		100,695	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 mortgages	Other retail exposures	Non-retail exposures	Total
Unaudited 31/03/2015				
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
Unaudited 31/03/2014				
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)
Audited 30/09/2014				
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
Unaudited 31/03/2015				
Collective provision				
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>
Individual provision				
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>
Unaudited 31/03/2014				
Collective provision				
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>
Individual provision				
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>
Audited 30/09/2014				
Collective provision				
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>
Individual provision				
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
Unaudited 31/03/2015				
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)
Total impaired assets	129	35	310	474
Undrawn facilities with impaired customers	1	-	19	20
Unaudited 31/03/2014				
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)
Total impaired assets	180	52	539	771
Undrawn facilities with impaired customers	-	1	34	35
Audited 30/09/2014				
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)
Total impaired assets	189	35	410	634
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
Unaudited 31/03/2015				
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
	901	306	840	2,047

Notes to the Financial Statements

7. Financial Assets Pledged as Collateral

\$ millions	Unaudited 31/03/2015	Unaudited 31/03/2014	Audited 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	11,599	10,451	10,467

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 31/03/2015	Unaudited 31/03/2014	Audited 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		88,142	81,457	84,019

Notes to the Financial Statements

9. Subordinated Debt

\$ millions	Unaudited 31/03/2015	Unaudited 31/03/2014	Audited 30/09/2014
ANZ Capital Notes¹			
ANZ New Zealand Internal Capital Notes (ANZ NZ ICN)	1,003	-	-
ANZ New Zealand Capital Notes (ANZ NZ CN) ²	494	-	-
Perpetual subordinated debt			
NZD 835,000,000 perpetual subordinated bond ^{2,3}	835	835	835
AUD 265,740,000 perpetual subordinated floating rate loan ^{3,4}	-	283	298
AUD 10,000,000 perpetual subordinated floating rate loan	10	11	11
Total subordinated debt issued	2,342	1,129	1,144
Less subordinated debt instruments held by the Bank	(1)	-	-
Total subordinated debt	2,341	1,129	1,144

¹ These instruments qualify as additional tier 1 capital.

² These instruments are listed on the New Zealand Debt Market (NZDX). The Market Surveillance Panel of the NZX granted the Bank a waiver from the requirements of Listing Rules 10.3 (relating to the provision of preliminary announcements of half yearly and annual results to the NZX) and 10.4 (relating to preparing and providing a copy of half yearly and annual reports to the NZX).

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

⁴ 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 31/03/2015	Unaudited 31/03/2014	Audited 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
Unaudited						
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%			
RBNZ minimum ratios:						
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 31/03/2015
\$ millions	
Tier 1 capital	
<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 ²	1,503
Additional tier 1 capital	<u>1,803</u>
Total tier 1 capital	<u>9,462</u>
Tier 2 capital	
<i>Qualifying tier 2 capital instruments subject to phase-out under RBNZ Basel III transition arrangements</i>	
NZD 835,000,000 perpetual subordinated bond ²	835
<i>Less deductions from tier 2 capital</i>	
Basel III transition adjustment ¹	(133)
Total tier 2 capital	<u>702</u>
Total capital	<u>10,164</u>

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

² A summary of the terms of these instruments is included in note 9.

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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 ¹	Total capital requirement
Unaudited 31/03/2015			
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

¹ 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

Unaudited 31/03/2015	Total exposure or principal amount \$m	Exposure at default \$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure \$m	Total capital requirement \$m
On-balance sheet exposures						
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
Off-balance sheet exposures						
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
Market related contracts						
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 %	Exposure at default \$m	Exposure-weighted LGD used for the capital calculation %	Exposure-weighted risk weight %	Risk weighted exposure \$m	Total capital requirement \$m
Corporate						
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
Sovereign						
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
Bank						
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
Retail mortgages						
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
Other retail						
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 \$m	Risk weight %	Risk weighted exposure \$m	Total capital requirement \$m
On-balance sheet exposures				
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	8,403	87	7,788	623

	Exposure amount \$m	Exposure at default \$m	Average risk weight %	Risk weighted exposure \$m	Total capital requirement \$m
Off-balance sheet exposures					
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	3,569	1,076	90	1,024	82

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 \$m	Risk weight %	Risk weighted exposure \$m	Total capital requirement \$m
On-balance sheet exposures				
Corporates	58	100	61	5
Default	1	150	1	-
Total on-balance sheet exposures	59	101	62	5

	Exposure amount \$m	Average credit conversion factor %	Exposure at default \$m	Average risk weight %	Risk weighted exposure \$m	Total capital requirement \$m
Off-balance sheet exposures						
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	396,319	n/a	1,672	16	275	22

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

Equity exposures

Unaudited 31/03/2015	Exposure at default \$m	Risk weight %	Risk weighted exposure \$m	Total capital requirement \$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 \$m	Risk weight %	Risk weighted exposure \$m	Total capital requirement \$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.

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Capital adequacy of the Ultimate Parent Bank

Basel III capital ratios

	Overseas Banking Group			Ultimate Parent Bank (Extended Licensed Entity)		
	31/03/2015	31/03/2014	30/09/2014	31/03/2015	31/03/2014	30/09/2014
Unaudited						
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.

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 \$ millions 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 \$ 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 \$ millions	Cash, settlements receivable and collateral paid	Trading securities and available-for- sale assets	Derivative financial instruments	Net loans and advances ³	Other financial assets	Credit related commitments ⁴	Total
Industry							
Agriculture	-	-	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 ¹	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 ²	-	48	529	1,908	8	1,577	4,070
	5,181	13,118	10,961	101,295	800	32,959	164,314
Less: Provision for credit impairment	-	-	-	(557)	-	(81)	(638)
Less: Unearned income	-	-	-	(215)	-	-	(215)
Add: Capitalised brokerage / mortgage origination fees	-	-	-	253	-	-	253
Total financial assets	5,181	13,118	10,961	100,776	800	32,878	163,714
Geography							
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
Total financial assets	5,181	13,118	10,961	100,776	800	32,878	163,714

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

² Other includes exposures to electricity, gas and water, communications and personal services.

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

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

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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 \$ millions	Total	Up to 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 2 years	Over 2 years	Not bearing interest
Assets							
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
Total financial assets	130,755	61,788	7,672	10,412	20,614	18,333	11,936
Liabilities							
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
Total financial liabilities	122,962	65,424	12,480	10,599	3,783	10,755	19,921
Hedging instruments	-	28,764	(12,360)	760	(16,082)	(1,082)	-
Interest sensitivity gap	7,793	25,128	(17,168)	573	749	6,496	(7,985)

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 \$ millions	Cash	Trading Securities	Available-for- 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
Total liquidity portfolio	2,421	11,763	813	14,997

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 31/03/2015
Funding composition	
Customer deposits¹	
New Zealand	71,294
Overseas	9,044
Total customer deposits	<u>80,338</u>
Wholesale funding	
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>
Concentrations of funding by industry	
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 ²	1,531
Total funding	<u>108,169</u>
Concentrations of funding by geography³	
New Zealand	78,084
Australia	1,081
United States	13,036
Europe	9,357
Other countries	6,611
Total funding	<u>108,169</u>

¹ Comprises term deposits, other deposits bearing interest and other borrowings, deposits not bearing interest and UDC secured investments

² Other includes exposures to electricity, gas and water, communications and personal services.

³ 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 \$ millions	Total	At call	Up to 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	No maturity specified
Financial assets							
Cash	2,458	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	-	-
Total financial assets	170,057	2,490	31,041	16,719	58,632	61,173	2
Financial liabilities							
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	-
Total financial liabilities	124,671	44,861	33,132	25,184	16,880	2,273	2,341
Derivative financial instruments used for balance sheet management							
- gross inflows	15,091	-	853	3,771	8,757	1,710	-
- gross outflows	(16,115)	-	(821)	(3,875)	(9,623)	(1,796)	-
Net financial assets / (liabilities) after balance sheet management	44,362	(42,371)	(2,059)	(8,569)	40,886	58,814	(2,339)

Contractual maturity of off-balance sheet commitments and contingent liabilities

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

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 31/03/2015		Unaudited 31/03/2014		Audited 30/09/2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets						
Net loans and advances ¹	100,695	101,043	93,391	93,383	96,299	96,397
Liabilities						
Deposits and other borrowings ²	88,142	88,215	81,457	81,468	84,019	84,042
Debt issuances ¹	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

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

² 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 31/03/2015				Unaudited 31/03/2014				Audited 30/09/2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets												
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 ¹	581	321	1	903	665	-	2	667	712	58	2	772
Investments backing insurance contract liabilities ¹	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
Financial liabilities												
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

¹ 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 31/03/2015	Unaudited 31/03/2014	Audited 30/09/2014
Credit related commitments			
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	30,663	26,889	28,142
Guarantees and contingent liabilities			
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	2,296	2,333	2,436

The Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its Ultimate Parent Bank. 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

