



13 November 2023

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

**ANZ Group Holdings Limited – ANZ New Zealand
Financial Statements**

ANZ Group Holdings Limited (ANZ) today released ANZ Group Holdings Limited – ANZ New Zealand Financial Statements for the year ended 30 September 2023.

It has been approved for distribution by ANZ's Board of Directors.

Yours faithfully

Simon Pordage
Company Secretary
ANZ Group Holdings Limited

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**ANZ GROUP HOLDINGS LIMITED - ANZ NEW ZEALAND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 SEPTEMBER 2023



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GLOSSARY OF TERMS

In these financial statements unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Funds Pty Limited, which is the immediate parent company of ANZ Holdings (New Zealand) Limited.

Ultimate Non-Bank Holding Company, ANZGHL means ANZ Group Holdings Limited.

ANZ Group means the worldwide operations of ANZGHL including its controlled entities.

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

Overseas Banking Group means the worldwide operations of the Ultimate Parent Bank including its controlled entities.

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

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

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

ANZ New Zealand, We or Our means the New Zealand business of ANZ Group.

Registered Office is Level 8, 170 Featherston Street, Wellington, New Zealand, which is also ANZ New Zealand's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS

INCOME STATEMENT

For the year ended 30 September	Note	2023 NZ\$m	2022 NZ\$m
Interest income		10,226	5,824
Interest expense		(5,987)	(2,062)
Net interest income	2	4,239	3,762
Other operating income	2	607	1,118
Share of associates' loss	2	-	(1)
Operating income		4,846	4,879
Operating expenses	3	(1,669)	(1,654)
Profit before credit impairment and income tax		3,177	3,225
Credit impairment charge	12	(183)	(39)
Profit before income tax		2,994	3,186
Income tax expense	4	(832)	(887)
Profit for the year		2,162	2,299
Comprising:			
Profit attributable to the shareholders of the Ultimate Non-Bank Holding Company		2,135	2,299
Profit attributable to non-controlling interests		27	-

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September	2023 NZ\$m	2022 NZ\$m
Profit after tax	2,162	2,299
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain on defined benefit schemes	7	10
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised losses recognised directly in equity	(181)	(3)
Realised gains transferred to the income statement	(16)	(28)
Income tax attributable to the above items	54	6
Other comprehensive income after tax	(136)	(15)
Total comprehensive income for the year	2,026	2,284
Comprising total comprehensive income attributable to:		
The shareholders of the Ultimate Non-Bank Holding Company	1,999	2,284
Non-controlling interests	27	-

BALANCE SHEET

As at 30 September	Note	2023 NZ\$m	2022 NZ\$m
Assets			
Cash and cash equivalents	7	13,094	12,575
Settlement balances receivable		401	785
Collateral paid		801	1,672
Trading securities	8	5,921	7,228
Derivative financial instruments	9	8,747	15,478
Investment securities	10	10,958	11,357
Net loans and advances	11	149,627	147,373
Investments in associates	23	-	4
Deferred tax assets	4	396	363
Goodwill and other intangible assets	19	3,131	3,099
Premises and equipment		371	450
Other assets		1,154	1,055
Total assets		194,601	201,439
Liabilities			
Settlement balances payable		2,886	4,887
Collateral received		1,500	1,962
Deposits and other borrowings	13	144,392	142,482
Derivative financial instruments	9	8,287	13,571
Current tax liabilities		59	315
Payables and other liabilities		1,955	1,367
Employee entitlements		122	128
Other provisions	20	211	222
Debt issuances	14	18,494	20,483
Total liabilities		177,906	185,417
Net assets		16,695	16,022
Shareholders' equity			
Share capital	21	11,074	11,055
Reserves	21	(93)	48
Retained earnings	21	5,164	4,369
Equity attributable to the shareholders of the Ultimate Non-Bank Holding Company	21	16,145	15,472
Non-controlling interests	21	550	550
Total shareholders' equity	21	16,695	16,022

FINANCIAL STATEMENTS

CASH FLOW STATEMENT

	2023 NZ\$m	2022 NZ\$m
For the year ended 30 September		
Profit after income tax	2,162	2,299
Adjustments to reconcile to net cash provided by/(used in) operating activities:		
Depreciation and amortisation	117	125
Loss/(gain) on sale and impairment of premises and equipment	(7)	4
Net derivatives/foreign exchange adjustment	593	626
Other non-cash movements	(145)	(38)
<i>Net (increase)/decrease in operating assets:</i>		
Collateral paid	871	(1,135)
Trading securities	1,307	2,357
Net loans and advances	(2,254)	(6,299)
Other assets	252	(985)
<i>Net increase/(decrease) in operating liabilities:</i>		
Deposits and other borrowings (excluding items included in financing activities)	972	4,966
Settlement balances payable	(2,001)	2,224
Collateral received	(462)	1,224
Other liabilities	341	(12)
Total adjustments	(416)	3,057
Net cash provided by operating activities¹	1,746	5,356
Cash flows from investing activities		
Investment securities:		
Purchases	(4,768)	(3,898)
Proceeds from sale or maturity	5,414	3,839
Purchase of subsidiary	(10)	-
Other assets	(28)	(65)
Net cash provided by/(used in) investing activities	608	(124)
Cash flows from financing activities		
Deposits and other borrowings ²	1,000	1,500
Debt issuances: ³		
Issue proceeds	3,020	3,452
Redemptions	(4,444)	(4,028)
Borrowings from Immediate Parent and Ultimate Parent Bank: ⁴	-	-
Change in short term borrowings	(12)	(41)
Proceeds from issue of ordinary shares	2	-
Proceeds from issue of preference shares	-	542
Increase in branch capital	17	-
Repayment of lease liabilities	(46)	(46)
Dividends paid	(1,372)	(1,880)
Net cash used in financing activities	(1,835)	(501)
Net change in cash and cash equivalents	519	4,731
Cash and cash equivalents at beginning of year	12,575	7,844
Cash and cash equivalents at end of year	13,094	12,575

1 Net cash provided by operating activities includes income taxes paid of NZ\$1,067 million (2022: NZ\$700 million).

2 Movement in deposits and other borrowings includes repurchase transactions entered into with RBNZ under the Funding for Lending Programme of NZ\$1,000 million (2022: NZ\$1,500 million).

3 Movement in debt issuances (Note 14 Debt issuances) also includes an NZ\$651 million decrease (2022: NZ\$1,739 million increase) from the effect of foreign exchange rates, an NZ\$82 million increase (2022: NZ\$1,550 million decrease) from changes in fair value hedging instruments and an NZ\$4 million increase (2022: NZ\$18 million increase) from other changes.

4 Movement in borrowings from Immediate Parent and Ultimate Parent Bank (Note 13 Deposit and other borrowings) also includes an NZ\$57 million decrease (2022: NZ\$194 million increase) from the effect of foreign exchange rates, an NZ\$6 million increase (2022: NZ\$124 million decrease) from changes in fair value hedging instruments and an NZ\$1 million increase (2022: NZ\$1 million increase) of other changes.

STATEMENT OF CHANGES IN EQUITY

	Share capital NZ\$m	Reserves NZ\$m	Retained earnings NZ\$m	Equity attributable to the shareholders of the Ultimate Non-Bank Holding Company NZ\$m	Non-controlling interests NZ\$m	Total shareholders' equity NZ\$m
As at 1 October 2021	11,055	70	3,951	15,076	-	15,076
Profit for the year	-	-	2,299	2,299	-	2,299
Other comprehensive income for the year	-	(22)	7	(15)	-	(15)
Total comprehensive income for the year	-	(22)	2,306	2,284	-	2,284
Transactions with equity holders in their capacity as equity owners:						
Ordinary dividends paid	-	-	(1,880)	(1,880)	-	(1,880)
Preference shares issued (net of issue costs)	-	-	(8)	(8)	550	542
As at 30 September 2022	11,055	48	4,369	15,472	550	16,022
Profit for the year	-	-	2,135	2,135	27	2,162
Other comprehensive income for the year	-	(141)	5	(136)	-	(136)
Total comprehensive income for the year	-	(141)	2,140	1,999	27	2,026
Transactions with equity holders in their capacity as equity owners:						
Ordinary dividends paid	-	-	(1,345)	(1,345)	-	(1,345)
Preference dividends paid	-	-	-	-	(27)	(27)
Other equity movements:						
Increase in branch capital	19	-	-	19	-	19
As at 30 September 2023	11,074	(93)	5,164	16,145	550	16,695

NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS

ORGANISATIONAL RESTRUCTURE

These Consolidated Financial Statements have been prepared for the New Zealand business of the ANZ Group Holdings Limited consolidated group (ANZ New Zealand). On 3 January 2023, a scheme of arrangement was executed under which all the shares in the Ultimate Parent Bank were exchanged for shares in ANZGHL thereby establishing ANZGHL as the new listed parent holding company of the Overseas Banking Group.

Accordingly, these Consolidated Financial Statements reflect a continuation of ANZBGL New Zealand as it existed before the restructure and have been prepared based on accounting policies and using methods of computation consistent with those applied in the 2022 ANZBGL New Zealand financial statements.

GENERAL INFORMATION

These are the financial statements for ANZ New Zealand for the year ended 30 September 2023. The Ultimate Non-Bank Holding Company is incorporated in Australia and is also registered in New Zealand (ANZGHL). The address of the ANZGHL's New Zealand registered office and its principal place of business is Level 8, 170 Featherston Street, Wellington, New Zealand.

On 10 November 2023, the Directors resolved to authorise the issue of these financial statements.

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

- the amount is significant in size (quantitative factor);
- the information is significant by nature (qualitative factor);
- the user cannot understand ANZ New Zealand's results without the specific disclosure (qualitative factor);
- the information is critical to a user's understanding of the impact of significant changes in ANZ New Zealand's business during the period – for example, business acquisitions or disposals (qualitative factor);
- the information relates to an aspect of ANZ New Zealand's operations that is important to its future performance (qualitative factor); and
- the information is required under legislative or other regulatory requirements.

This section of the financial statements:

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

BASIS OF PREPARATION

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

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

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

BASIS OF MEASUREMENT

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

- derivative financial instruments;
- financial instruments held for trading;
- financial assets and financial liabilities designated at fair value through profit or loss (FVTPL); and
- financial assets at fair value through other comprehensive income (FVOCI).

BASIS OF CONSOLIDATION

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

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

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

We measure translation differences on non-monetary items classified as FVTPL and report them as part of the fair value gain or loss on these items. For non-monetary items classified as investment securities measured at FVOCI, translation differences are included in other comprehensive income.

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

FIDUCIARY ACTIVITIES

The Banking Group provides fiduciary services to third parties including custody, nominee and trustee services. This involves the Banking Group holding assets on behalf of third parties and making decisions regarding the purchase and sale of financial instruments. If the Banking Group is not the beneficial owner or does not control the assets, then we do not recognise these transactions in these financial statements, except when required by accounting standards or another legislative requirement.



KEY JUDGEMENTS AND ESTIMATES

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

The global economy is facing challenges associated with high inflation and interest rates, labour market constraints, continuing geopolitical tensions, and impacts from climate change, which contribute to an elevated level of estimation uncertainty involved in the preparation of these financial statements.

ANZ New Zealand has made various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions at 30 September 2023 about future events considered reasonable in the circumstances. Thus there is a considerable degree of judgement involved in preparing these estimates. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of these differences may significantly impact accounting estimates included in these financial statements. The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses and recoverable amounts of non-financial assets.

The impact of these uncertainties on each of these accounting estimates is discussed further in the relevant notes of these financial statements. Readers should consider these disclosures in light of the inherent uncertainties described above.

INTEREST RATE BENCHMARK REFORM

Interbank offered rates (IBORs) reform is the global transition away from IBORs and their replacement by risk-free rates (RFRs). IBOR reforms have had a wide-ranging impact for ANZ New Zealand and our customers given the fundamental differences between IBORs and RFRs. Accordingly, ANZ New Zealand established a Benchmark Transition Programme (the programme) to manage the operational, market, legal, conduct and financial reporting risks associated with IBOR transition.

As at 30 September 2023 ANZ New Zealand's programme is largely complete, and included the implementation of the required processes, technology and product capabilities that ensured the transitions were successfully undertaken. In line with regulatory announcements made in early 2021, IBOR rates including Pound Sterling (GBP), Euro (EUR), Swiss Franc (CHF) and Japanese Yen (JPY), and the 1-week and 2-month US Dollar (USD) London Interbank Offered Rate (LIBOR) rate settings ceased on 31 December 2021 and were replaced by alternative RFRs. ANZ New Zealand exposure to IBOR reform was primarily concentrated in other USD LIBOR settings which ceased on 30 June 2023. No material changes were made to ANZ New Zealand's risk management strategy because of IBOR reform and the use of IBOR rates in new products was phased out in accordance with industry and supervisory guidance. The transition activities had an immaterial impact to ANZ New Zealand's profit and loss.

To support any legacy contracts referencing these benchmarks across the industry, the 1-month, 3-month and 6-month USD settings will continue to be published using an alternative 'synthetic' methodology.

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NOTES TO THE FINANCIAL STATEMENTS

1. ABOUT OUR FINANCIAL STATEMENTS (continued)

ACCOUNTING STANDARDS ADOPTED IN THE PERIOD

Accounting policies have been consistently applied, unless otherwise noted.

ACCOUNTING STANDARDS NOT EARLY ADOPTED

A number of new standards, amendments to standards and interpretations have been published but are not mandatory for the financial statements for the year ended 30 September 2023 and have not been applied by ANZ New Zealand in preparing these financial statements. Further details of these are set out below.

GENERAL HEDGE ACCOUNTING

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) introduced new hedge accounting requirements which more closely align accounting with risk management activities undertaken when hedging both financial and non-financial risks. NZ IFRS 9 provided ANZ New Zealand with an accounting policy choice to continue to apply the NZ IAS 39 *Financial Instruments: Recognition and Measurement* (NZ IAS 39) hedge accounting requirements until the International Accounting Standards Board's ongoing project on Dynamic Risk Management (macro hedge accounting) is completed. ANZ New Zealand continues to apply the hedge accounting requirements of NZ IAS 39.

DEFERRED TAX RELATED TO ASSETS AND LIABILITIES ARISING FROM A SINGLE TRANSACTION

Amendments to New Zealand Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction amends NZ IAS 12 *Income Taxes*. It clarifies that entities are required to recognise deferred tax on transactions for which there is both an asset and a liability and that give rise to equal taxable and deductible temporary differences which may apply to leases and decommissioning or restoration obligations. This amendment is effective for ANZ New Zealand from 1 October 2023 and will not have a material impact on ANZ New Zealand.

LEASE LIABILITY IN A SALE AND LEASEBACK

Amendments to New Zealand Accounting Standards – Lease Liability in a Sale and Leaseback amends NZ IFRS 16 *Leases* and specifies the accounting for variable lease payments by seller-lessees in sale and leaseback transactions. The amendment is effective from 1 January 2024 and will not have a material impact on ANZ New Zealand.

AMENDMENTS TO NEW ZEALAND ACCOUNTING STANDARDS - INTERNATIONAL TAX REFORM – PILLAR TWO MODEL RULES

New Zealand is expected to implement Pillar Two of the OECD/G20 Two-Pillar Solution to address the tax challenges arising from the digitalisation of the economy. Pillar Two is not yet law in New Zealand. Other jurisdictions in which the ANZ Group operates are also considering implementation of the regime. ANZ New Zealand is expected to be within the scope of associated legislation for Pillar Two. In anticipation of legislation being enacted, the XRB issued *Amendments to New Zealand Accounting Standards – International Tax Reform – Pillar Two Model Rules* in June 2023. ANZ New Zealand has applied the exemption included para 4A of this standard and will apply the whole amending standard from 1 October 2023. This amending standard stipulates a mandatory temporary exemption from recognising deferred tax assets and liabilities related to Pillar Two income taxes. ANZ New Zealand is monitoring progress of associated legislation. The amending standard is not expected to have a material impact on the financial statements.

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2. OPERATING INCOME

	2023 NZ\$m	2022 NZ\$m
Net interest income		
Interest income by type of financial asset		
Financial assets at amortised cost	9,656	5,502
Trading securities	246	149
Investment securities	304	173
Financial assets at FVTPL	20	-
Interest income	10,226	5,824
Interest expense by type of financial liability		
Financial liabilities at amortised cost	(5,776)	(1,954)
Financial liabilities designated at FVTPL	(211)	(108)
Interest expense	(5,987)	(2,062)
Net interest income	4,239	3,762
Other operating income		
Fee and commission income		
Lending fees	28	25
Non-lending fees	731	731
Commissions	33	32
Funds management income	244	253
Fee and commission income	1,036	1,041
Fee and commission expense	(530)	(502)
Net fee and commission income	506	539
Other income		
Net foreign exchange earnings and other financial instruments income ¹	60	555
Adjustment to gain on sale of UDC Finance Ltd	25	12
Adjustment to gain on sale of Paymark Ltd	-	2
Gain on sale of premises and equipment	10	-
Other	6	10
Other income	101	579
Other operating income	607	1,118
Share of associates' loss	-	(1)
Operating income	4,846	4,879

¹ Includes fair value movements (excluding realised and accrued interest) on derivatives not designated as accounting hedges entered into to manage interest rate and foreign exchange risk, ineffective portions of cash flow hedges, and fair value movements in financial assets and liabilities designated at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

2. OPERATING INCOME (continued)

RECOGNITION AND MEASUREMENT

NET INTEREST INCOME

Interest income and expense

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

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

OTHER OPERATING INCOME

Fee and commission income

We recognise fee and commission revenue arising from contracts with customers (a) over time when the performance obligation is satisfied across more than one reporting period or (b) at a point in time when the performance obligation is satisfied immediately or is satisfied within one reporting period.

- lending fees exclude fees treated as part of the effective yield calculation of interest income. Lending fees include certain guarantee and commitment fees where the loan or guarantee is not likely to be drawn upon, and other fees charged for providing customers a distinct good or service that are recognised separately from the underlying lending product.
- non-lending fees include fees associated with deposit and credit card accounts, interchange fees and fees charged for specific customer transactions such as international transaction fees. Where ANZ New Zealand provides multiple goods or services to a customer under the same contract, ANZ New Zealand allocates the transaction price of the contract to distinct performance obligations based on the relative stand-alone selling price of each performance obligation. Revenue is recognised as each performance obligation is satisfied.
- commissions represent fees from third parties where we act as an agent by arranging a third party (such as an insurance provider) to provide goods and services to a customer. In such cases, we are not primarily responsible for providing the underlying good or service to the customer. If ANZ New Zealand collects funds on behalf of a third party when acting as an agent, we only recognise the net commission retained as revenue. When the commission is variable based on factors outside our control (such as a trail commission), revenue is only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.
- funds management income represents fees earned from customers for providing financial advice and fees for asset management services. Revenue is recognised either at the point the financial advice is provided or over the period in which the asset management services are delivered.

Net foreign exchange earnings and other financial instruments income

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

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

SHARE OF ASSOCIATES' PROFIT / (LOSS)

The equity method is applied to accounting for associates. Under the equity method, ANZ New Zealand's share of the after tax results of associates is included in the income statement and the statement of comprehensive income.

3. OPERATING EXPENSES

	2023 NZ\$m	2022 NZ\$m
Personnel		
Salaries and related costs	976	947
Superannuation costs	29	30
Other	19	19
Personnel	1,024	996
Premises		
Rent	17	16
Depreciation	78	81
Other	37	38
Premises	132	135
Technology		
Depreciation and amortisation	37	44
Subscription licences and outsourced services	186	157
Other	22	27
Technology	245	228
Other		
Advertising and public relations	38	37
Amortisation of other intangible assets	2	-
Professional fees	80	64
Freight, stationery, postage and communication	46	41
Charges from ANZ Group	63	107
Other	39	46
Other	268	295
Operating expenses	1,669	1,654



RECOGNITION AND MEASUREMENT

OPERATING EXPENSES

Operating expenses are recognised as services are provided to ANZ New Zealand, over the period in which an asset is consumed, or once a liability is created.

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

4. INCOME TAX

INCOME TAX EXPENSE

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

	2023 NZ\$m	2022 NZ\$m
Profit before income tax	2,994	3,186
Prima facie income tax expense at 28%	838	892
Tax effect of permanent differences:		
Tax provisions no longer required	(3)	(3)
Non-assessable income and non-deductible expenditure	(3)	(2)
Income tax expense	832	887
Current tax expense	837	930
Adjustments recognised in the current year in relation to the current tax of prior years	(3)	(63)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(2)	20
Income tax expense	832	887
Effective tax rate	27.8%	27.8%

DEFERRED TAX ASSETS AND LIABILITIES

	2023 NZ\$m	2022 NZ\$m
Deferred tax assets balances comprise temporary differences attributable to:		
Amounts recognised in the income statement:		
Collectively assessed allowances for expected credit losses	222	187
Individually assessed allowances for expected credit losses	18	23
Provision for employee entitlements	52	51
Other provisions	24	37
Software	146	182
Other	27	19
Total	489	499
Amounts recognised directly in other comprehensive income:		
Cash flow hedge reserve	21	-
Total	21	-
Total deferred tax assets (before set-off)	510	499
Set-off of deferred tax balances pursuant to set-off provisions	(114)	(136)
Net deferred tax assets	396	363

	2023 NZ\$m	2022 NZ\$m
Deferred tax liabilities balances comprise temporary differences attributable to:		
Amounts recognised in the income statement:		
Finance leases	83	86
Fixed assets	3	4
Other	28	36
Total	114	126
Amounts recognised directly in other comprehensive income:		
Cash flow hedge reserve	-	10
Total	-	10
Total deferred tax liabilities (before set-off)	114	136
Set-off of deferred tax balances pursuant to set-off provisions	(114)	(136)
Net deferred tax liabilities	-	-

4. INCOME TAX (continued)

✓ RECOGNITION AND MEASUREMENT

INCOME TAX EXPENSE

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

CURRENT TAX EXPENSE

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

DEFERRED TAX ASSETS AND LIABILITIES

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

We offset current and deferred tax assets and liabilities only to the extent that:

- they relate to income taxes imposed by the same taxation authority;
- there is a legal right and intention to settle on a net basis; and
- it is allowed under the tax law of the relevant jurisdiction.

5. DIVIDENDS

ORDINARY SHARE DIVIDENDS

Dividends	Amount per share	Total dividend NZ\$m
Financial Year 2022		
Dividend paid in March 2022	232.7 cents	880
Dividend paid in September 2022	264.4 cents	1,000
Dividends paid during the year ended 30 September 2022		1,880
Financial Year 2023		
Dividend paid in March 2023	230.0 cents	870
Dividend paid in September 2023	125.6 cents	475
Dividends paid during the year ended 30 September 2023		1,345

IMPUTATION CREDIT ACCOUNT

	ANZ New Zealand ¹		Bank ^{2,3}	
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
Imputation credits available as at 30 September	5,728	5,439	1,396	1,135

1 The comparative amount for ANZ New Zealand has been updated to include the imputation credit balance of the Trans-Tasman imputation group, instead of the New Zealand resident imputation group, to reflect the imputation credits available to ANZ New Zealand following changes to ANZ New Zealand's imputation groups that came into effect on 1 October 2022.

2 Imputation credits available to the Bank are shown separately as this is relevant for holders of perpetual preference shares (PPS, refer to Note 21 Shareholders' equity) issued by the Bank.

3 The comparative amount for the Bank has been updated to reflect the impact of a legislative change that requires the Bank consolidated imputation group to recognise imputation credits for tax paid but not utilised prior to 1 October 2022. This was previously recognised by the New Zealand resident imputation group.

The imputation credit balance for ANZ New Zealand includes the imputation credit balance in relation to the Trans-Tasman imputation group, the Bank consolidated imputation group and other companies in ANZ New Zealand that are not in either of these imputation groups. The imputation credit balance available to ANZ New Zealand includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

The imputation credit balance for the Bank reflects the imputation credit balance of the Bank consolidated imputation group. The imputation credit balance available to the Bank includes imputation credits that will arise from the payment of the amount of provision for income tax as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENT REPORTING

DESCRIPTION OF SEGMENTS

ANZ New Zealand is organised into three major business segments for segment reporting purposes - Personal, Business & Agri 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.

Segment reporting has been updated to reflect the transfer of certain larger business and property finance customers from Business & Agri to Institutional, and other minor segmentation changes. The transfer aligns the customer needs with the right support and expertise delivering a better customer experience. Comparative amounts have been adjusted to be consistent with the current period's segment definitions. The change resulted in the movement of NZ\$11.9 billion of net loans and advances, NZ\$3.5 billion of customer deposits and NZ\$200 million of goodwill as at 30 September 2022.

Personal

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

Business & Agri (previously Business)

Business & Agri provides a full range of banking services through our digital, branch and contact centre channels, and traditional relationship banking and sophisticated financial solutions through dedicated managers. These cover privately owned small, medium and large enterprises, the agricultural business segment, government and government related entities.

Institutional

The Institutional division services governments, global institutional and corporate customers via the following business units:

- **Transaction Banking** provides customers with working capital and liquidity solutions including documentary trade, supply chain financing, commodity financing as well as cash management solutions, deposits, payments and clearing.
- **Corporate Finance** provides customers with loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory services.
- **Markets** provides customers with risk management services in foreign exchange, interest rates, credit, commodities and debt capital markets in addition to managing ANZ New Zealand's interest rate exposure and high quality liquid asset portfolio.

Other

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

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6. SEGMENT REPORTING (continued)

OPERATING SEGMENTS

	Personal		Business & Agri		Institutional		Other		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Year ended 30 September	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Net interest income	2,385	2,216	1,014	889	706	629	134	28	4,239	3,762
Net fee and commission income										
- Lending fees	7	7	1	1	20	17	-	-	28	25
- Non-lending fees	437	426	243	247	51	58	-	-	731	731
- Commissions	32	31	-	-	1	1	-	-	33	32
- Funds management income	244	253	-	-	-	-	-	-	244	253
- Fee and commission expense	(341)	(306)	(189)	(196)	-	-	-	-	(530)	(502)
Net fee and commission income	379	411	55	52	72	76	-	-	506	539
Other income	2	3	-	-	271	184	(172)	392	101	579
Share of associates' loss	-	-	-	-	-	-	-	(1)	-	(1)
Other operating income	381	414	55	52	343	260	(172)	391	607	1,117
Operating income	2,766	2,630	1,069	941	1,049	889	(38)	419	4,846	4,879
Operating expenses	(1,160)	(1,165)	(221)	(208)	(236)	(248)	(52)	(33)	(1,669)	(1,654)
Profit before credit impairment and income tax	1,606	1,465	848	733	813	641	(90)	386	3,177	3,225
Credit impairment release / (charge)	(49)	(74)	(73)	25	(61)	10	-	-	(183)	(39)
Profit before income tax	1,557	1,391	775	758	752	651	(90)	386	2,994	3,186
Income tax expense	(436)	(390)	(217)	(213)	(211)	(182)	32	(102)	(832)	(887)
Non-controlling interests	-	-	-	-	-	-	(27)	-	(27)	-
Profit / (loss) after income tax ¹	1,121	1,001	558	545	541	469	(85)	284	2,135	2,299
Financial position										
Goodwill	1,042	1,042	695	695	1,269	1,269	-	-	3,006	3,006
Net loans and advances	106,444	103,015	24,424	25,559	18,759	18,799	-	-	149,627	147,373
Customer deposits	88,085	85,043	18,345	19,407	26,098	25,880	-	-	132,528	130,330

¹ Attributable to the shareholders of the Ultimate Non-Bank Holding Company.

OTHER SEGMENT

The Other segment profit after income tax comprises:

For the year ended 30 September	2023 NZ\$m	2022 NZ\$m
Personal and Business & Agri central functions	3	22
Group Centre	39	27
Economic hedges	(127)	235
Total	(85)	284

NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL ASSETS

Outlined below is a description of how we classify and measure financial assets as they apply to the note disclosures that follow.

✓ CLASSIFICATION AND MEASUREMENT

Financial assets - general

There are three measurement classifications for financial assets under NZ IFRS 9: amortised cost, FVTPL and FVOCI. Financial assets are classified into these measurement classifications on the basis of two criteria:

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

The resultant financial asset classifications are as follows:

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

Fair value option for financial assets

A financial asset may be irrevocably designated on initial recognition:

- at FVTPL when the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise; or
- at FVOCI for investments in equity securities, where that instrument is neither held for trading nor contingent consideration recognised by an acquirer in a business combination.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and other balances, as outlined below, that are convertible into cash with an insignificant risk of changes in value and with remaining maturities of three months or less, including reverse repurchase agreements.

	2023 NZ\$m	2022 NZ\$m
Coins, notes and cash at bank	155	154
Securities purchased under agreements to resell in less than 3 months	668	1,248
Balances with central banks	12,139	9,980
Settlement balances receivable within 3 months	132	1,193
Cash and cash equivalents	13,094	12,575

8. TRADING SECURITIES

	2023 NZ\$m	2022 NZ\$m
Government securities	5,249	6,051
Corporate and financial institution securities	672	1,177
Trading securities	5,921	7,228

✓ RECOGNITION AND MEASUREMENT

Trading securities are financial instruments we either:

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

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

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

Assets disclosed as trading securities are subject to the general classification and measurement policy for financial assets outlined on page 18.

☰ KEY JUDGEMENTS AND ESTIMATES

Judgement is required when applying the valuation techniques used to determine the fair value of trading securities not valued using quoted market prices. Refer to Note 16 Fair value of financial assets and financial liabilities for further details.

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NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value	Assets	Liabilities	Assets	Liabilities
	2023	2023	2022	2022
	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Derivative financial instruments - held for trading	7,522	(6,517)	14,114	(11,654)
Derivative financial instruments - designated in hedging relationships	1,225	(1,770)	1,364	(1,917)
Derivative financial instruments	8,747	(8,287)	15,478	(13,571)

FEATURES

Derivative financial instruments are contracts:

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

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

PURPOSE

ANZ New Zealand's derivative financial instruments have been categorised as follows:

Trading	Derivatives held in order to: <ul style="list-style-type: none"> • meet customer needs for managing their own risks. • manage risks in ANZ New Zealand that are not in a designated hedge accounting relationship (some elements of balance sheet management). • undertake market making and positioning activities to generate profits from short-term fluctuations in prices or margins.
Designated in hedging relationships	Derivatives designated into hedge accounting relationships in order to minimise profit or loss volatility by matching movements in underlying positions relating to: <ul style="list-style-type: none"> • hedges of ANZ New Zealand's exposures to interest rate risk and currency risk. • hedges of other exposures relating to non-trading positions.

TYPES

ANZ New Zealand offers or uses four different types of derivative financial instruments:

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

RISKS MANAGED

ANZ New Zealand offers and uses the instruments described above to manage fluctuations in the following market factors:

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

ANZ New Zealand uses central clearing counterparties and exchanges to settle derivative transactions. Different arrangements for posting of collateral exist with these exchanges:

- some transactions are subject to clearing arrangements which result in separate recognition of collateral assets and liabilities, with the carrying values of the associated derivative assets and liabilities held at their fair value.
- other transactions are legally settled by the payment or receipt of collateral which reduces the carrying values of the related derivative instruments by the amount paid or received.

DERIVATIVE FINANCIAL INSTRUMENTS - HELD FOR TRADING

The majority of ANZ New Zealand's derivative financial instruments are held for trading. The fair value of derivative financial instruments held for trading are:

Fair value	Assets	Liabilities	Assets	Liabilities
	2023	2023	2022	2022
	NZ\$m	NZ\$m	NZ\$m	NZ\$m
Interest rate contracts				
Forward rate agreements	1	(2)	6	(2)
Futures contracts	38	(2)	109	(8)
Swap agreements	1,521	(1,638)	1,174	(1,004)
Options	-	(10)	-	(12)
Total	1,560	(1,652)	1,289	(1,026)
Foreign exchange contracts				
Spot and forward contracts	1,855	(1,739)	5,829	(4,027)
Swap agreements	4,046	(3,070)	6,825	(6,442)
Options	29	(27)	136	(125)
Total	5,930	(4,836)	12,790	(10,594)
Commodity contracts and credit default swaps	32	(29)	35	(34)
Derivative financial instruments - held for trading	7,522	(6,517)	14,114	(11,654)

DERIVATIVE FINANCIAL INSTRUMENTS - DESIGNATED IN HEDGING RELATIONSHIPS

As set out in Note 1, under the accounting policy choice provided by NZ IFRS 9, ANZ New Zealand has continued to apply the hedge accounting requirements of NZ IAS 39.

ANZ New Zealand uses two types of hedge accounting relationships:

	Fair value hedge	Cash flow hedge
Objective of this hedging arrangement	To hedge our exposure to changes to the fair value of a recognised asset or liability or unrecognised firm commitment caused by interest rate or foreign currency movements.	To hedge our exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements.
Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: <ul style="list-style-type: none"> • all changes in the fair value of the underlying item relating to the hedged risk; and • the change in the fair value of the derivatives. 	We recognise the effective portion of changes in the fair value of derivatives designated as a cash flow hedge in the cash flow hedge reserve.
Recognition of ineffective hedge portion	Recognised immediately in other operating income.	
If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	When we recognise the hedged item in profit or loss, we recognise the related unamortised fair value adjustment in profit or loss. This may occur over time if the hedged item is amortised to profit or loss as part of the effective yield over the period to maturity.	Only when we recognise the hedged item in profit or loss is the amount previously deferred in the cash flow hedge reserve transferred to profit or loss.
Hedged item sold or repaid	We recognise the unamortised fair value adjustment immediately in profit or loss.	Amounts accumulated in equity are transferred immediately to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	2023			2022		
	Nominal amount NZ\$m	Assets NZ\$m	Liabilities NZ\$m	Nominal amount NZ\$m	Assets NZ\$m	Liabilities NZ\$m
Fair value hedges						
Interest rate swap agreements	28,408	988	(1,361)	30,861	920	(1,461)
Cash flow hedges						
Interest rate swap agreements	36,022	237	(409)	34,202	444	(456)
Derivative financial instruments - designated in hedging relationships	64,430	1,225	(1,770)	65,063	1,364	(1,917)

The maturity profile of the nominal amounts of our hedging instruments held is:

	Average interest rate	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	Total NZ\$m
Nominal amount						
As at 30 September 2023						
Fair value hedges						
Interest rate	1.95%	434	2,695	15,341	9,938	28,408
Cash flow hedges						
Interest rate	3.59%	4,747	9,389	19,462	2,424	36,022
As at 30 September 2022						
Fair value hedges						
Interest rate	1.65%	-	2,600	15,451	12,810	30,861
Cash flow hedges						
Interest rate	2.26%	1,826	7,454	24,079	843	34,202

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

	Ineffectiveness						Amount reclassified from the cash flow hedge reserve to profit or loss ⁴	
	Change in value of hedging instrument ²		Change in value of hedged item		Hedge ineffectiveness recognised in profit or loss ³		2023	2022
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
Fair value hedges¹								
Interest rate	(48)	(1,048)	71	1,053	23	5	-	-
Cash flow hedges¹								
Interest rate	(114)	22	113	(23)	(1)	(1)	1	3

¹ All hedging instruments are classified as derivative financial instruments.

² Changes in value of hedging instruments is before any adjustments for Settle to Market clearing arrangements.

³ Recognised in other operating income.

⁴ Recognised in net interest income and other operating income.

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The hedged items in relation to ANZ New Zealand's fair value hedges are:

	Balance sheet presentation	Hedged risk	Carrying amount		Accumulated fair value hedge adjustments on the hedged item	
			Assets NZ\$m	Liabilities NZ\$m	Assets NZ\$m	Liabilities NZ\$m
As at 30 September 2023						
Fixed rate debt issuance	Debt issuances	Interest rate	-	(18,728)	-	1,315
Fixed rate investment securities at FVOCI ¹	Investment securities	Interest rate	9,395	-	(837)	-
Total			9,395	(18,728)	(837)	1,315
As at 30 September 2022						
Fixed rate debt issuance	Debt issuances	Interest rate	-	(19,497)	-	1,403
Fixed rate investment securities at FVOCI ¹	Investment securities	Interest rate	11,506	-	(976)	-
Total			11,506	(19,497)	(976)	1,403

¹ The carrying amount of debt instruments at FVOCI does not include the fair value hedge adjustment. The fair value hedge adjustment is included in other comprehensive income.

There is no cumulative amount of fair value hedge adjustments relating to ceased hedge relationships remaining on the balance sheet as at 30 September 2023 (2022: nil).

The hedged items in relation to ANZ New Zealand's cash flow hedges are:

	Hedged risk	Continuing hedges		Discontinued hedges	
		2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
Floating rate loans and advances	Interest rate	(358)	(437)	-	-
Floating rate customer deposits	Interest rate	283	475	(1)	1

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

NOTES TO THE FINANCIAL STATEMENTS

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

✓ RECOGNITION AND MEASUREMENT

Recognition	<p>Initially and at each reporting date, we recognise all derivatives at fair value. If the fair value of a derivative is positive, then we carry it as an asset, but if its value is negative, then we carry it as a liability.</p> <p>Valuation adjustments are integral in determining the fair value of derivatives. This includes:</p> <ul style="list-style-type: none"> • a credit valuation adjustment (CVA) to reflect the counterparty risk and/or event of default; and • a funding valuation adjustment (FVA) to account for funding costs and benefits in the derivatives portfolio.
Derecognition of assets and liabilities	<p>We remove derivative assets from our balance sheet when the contracts expire or we have transferred substantially all the risks and rewards of ownership. We remove derivative liabilities from our balance sheet when ANZ New Zealand's contractual obligations are discharged, cancelled or expired.</p> <p>With respect to derivatives cleared through a central clearing counterparty or exchange, derivative assets or liabilities may be derecognised in accordance with the principle above when collateral is settled, depending on the legal arrangements in place for each instrument.</p>
Impact on the income statement	<p>The recognition of gains or losses on derivative financial instruments depends on whether the derivative is held for trading or is designated into a hedge accounting relationship. For derivative financial instruments held for trading, gains or losses from changes in the fair value are recognised in profit or loss.</p> <p>For an instrument designated in a hedge accounting relationship, the recognition of gains or losses depends on the nature of the item being hedged. Refer to the table on page 21 for details of the recognition approach applied for each type of hedge accounting relationship.</p> <p>Sources of hedge accounting ineffectiveness may arise from differences in the interest rate reference rate, margins, or rate set differences and differences in discounting between the hedged items and the hedging instruments.</p>
Hedge effectiveness	<p>To qualify for hedge accounting under NZ IAS 39, a hedge relationship is expected to be highly effective. A hedge relationship is highly effective only if the following conditions are met:</p> <ul style="list-style-type: none"> • the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated (prospective effectiveness); and • the actual results of the hedge are within the range of 80-125% (retrospective effectiveness). <p>ANZ New Zealand monitors hedge effectiveness on a regular basis but at a minimum at each reporting date.</p>

☰ KEY JUDGEMENTS AND ESTIMATES

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

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10. INVESTMENT SECURITIES

	2023 NZ\$m	2022 NZ\$m
Investment securities measured at FVOCI		
Debt securities	10,957	11,356
Equity securities	1	1
Total	10,958	11,357

The maturity profile of investment securities is as follows:

	Less than 3 months NZ\$m	3 to 12 months NZ\$m	1 to 5 years NZ\$m	After 5 years NZ\$m	No maturity NZ\$m	Total NZ\$m
As at 30 September 2023						
Government securities	492	512	6,423	3,115	-	10,542
Corporate and financial institution securities	29	-	386	-	-	415
Equity securities	-	-	-	-	1	1
Total	521	512	6,809	3,115	1	10,958
As at 30 September 2022						
Government securities	115	1,430	7,103	2,274	-	10,922
Corporate and financial institution securities	3	69	362	-	-	434
Equity securities	-	-	-	-	1	1
Total	118	1,499	7,465	2,274	1	11,357

✓ RECOGNITION AND MEASUREMENT

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

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

Assets disclosed as investment securities are subject to the general classification and measurement policy for financial assets outlined on page 18. Additionally, expected credit losses associated with 'Investment securities - debt securities at FVOCI' are recognised and measured in accordance with the accounting policy outlined in Note 12 Allowance for expected credit losses, and the allowance for expected credit loss is recognised in the FVOCI reserve in equity with a corresponding charge to profit or loss.

☰ KEY JUDGEMENTS AND ESTIMATES

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

NOTES TO THE FINANCIAL STATEMENTS

11. NET LOANS AND ADVANCES

The following table provides details of net loans and advances for ANZ New Zealand:

	Note	2023 NZ\$m	2022 NZ\$m
Overdrafts		973	968
Credit cards		1,262	1,238
Term loans - housing		107,346	104,178
Term loans - non-housing		40,345	41,234
Subtotal		149,926	147,618
Unearned income		(28)	(32)
Capitalised brokerage and other origination costs		459	433
Gross loans and advances		150,357	148,019
Allowance for expected credit losses	12	(730)	(646)
Net loans and advances		149,627	147,373
<i>Residual contractual maturity:</i>			
Within one year		27,937	31,962
More than one year		121,690	115,411
Net loans and advances		149,627	147,373

RECOGNITION AND MEASUREMENT

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

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

ANZ New Zealand enters into transactions in which it transfers financial assets that are recognised on its balance sheet. When ANZ New Zealand retains substantially all of the risks and rewards of the transferred assets, the transferred assets remain on ANZ New Zealand's balance sheet, however if substantially all the risks and rewards are transferred, ANZ New Zealand derecognises the asset. If the risks and rewards are partially retained and control over the asset is lost, then ANZ New Zealand derecognises the asset. If control over the asset is not lost, then ANZ New Zealand continues to recognise the asset to the extent of its continuing involvement.

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

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

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES

	2023			2022		
	Collectively assessed NZ\$m	Individually assessed NZ\$m	Total NZ\$m	Collectively assessed NZ\$m	Individually assessed NZ\$m	Total NZ\$m
Net loans and advances at amortised cost	670	60	730	569	77	646
Off-balance sheet commitments	122	5	127	100	5	105
Total	792	65	857	669	82	751

The following tables present the movement in the allowance for expected credit losses (ECL) for the year.

Net loans and advances

Allowance for ECL is included in net loans and advances.

	Stage 1	Stage 2	Stage 3		Total
			Collectively assessed	Individually assessed	
As at 1 October 2021	155	314	56	60	585
Transfer between stages	18	(10)	(3)	(5)	-
New and increased provisions (net of releases)	26	7	6	87	126
Write-backs	-	-	-	(33)	(33)
Bad debts written-off (excluding recoveries)	-	-	-	(37)	(37)
Discount unwind reversal	-	-	-	5	5
As at 30 September 2022	199	311	59	77	646
Transfer between stages	19	(19)	-	-	-
New and increased provisions (net of releases)	(25)	106	20	94	195
Write-backs	-	-	-	(22)	(22)
Bad debts written-off (excluding recoveries)	-	-	-	(86)	(86)
Discount unwind reversal	-	-	-	(3)	(3)
As at 30 September 2023	193	398	79	60	730

Off-balance sheet commitments - undrawn and contingent facilities

Allowance for ECL is included in other provisions.

	Stage 1	Stage 2	Stage 3	Total
As at 1 October 2021	64	39	4	122
Transfer between stages	7	(6)	(1)	-
New and increased provisions (net of releases)	(5)	(2)	-	(17)
As at 30 September 2022	66	31	3	105
Transfer between stages	2	(2)	-	-
New and increased provisions (net of releases)	12	10	-	22
As at 30 September 2023	80	39	3	127

The collectively assessed allowance for ECL increased by NZ\$123 million attributable to: increases of NZ\$62 million for downside risks associated with the economic outlook, NZ\$37 million due to portfolio credit risk profile changes reflecting the revised economic scenario weightings and enhanced model methodology, NZ\$7 million management temporary adjustments and NZ\$17 million in large exposure, model risk and other adjustment allowances.

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

	2023 NZ\$m	2022 NZ\$m
New and increased provisions		
- Collectively assessed	123	37
- Individually assessed	94	72
Write-backs	(22)	(33)
Recoveries of amounts previously written-off	(12)	(37)
Total credit impairment charge	183	39

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

RECOGNITION AND MEASUREMENT

EXPECTED CREDIT LOSS MODEL

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

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

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

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

MEASUREMENT OF EXPECTED CREDIT LOSS

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

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

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

EXPECTED LIFE

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

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

For retail portfolios, the expected lifetime is determined using a behavioural term, taking into account expected prepayment behaviour and events that give rise to substantial modifications.

DEFINITION OF DEFAULT, CREDIT IMPAIRED AND WRITE-OFFS

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

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

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

MODIFIED FINANCIAL ASSETS

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

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)

 **RECOGNITION AND MEASUREMENT**
SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

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

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

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

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

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

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

FORWARD-LOOKING INFORMATION

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

- i. Base case scenario
The base case scenario is our view of future macroeconomic conditions. It reflects management's assumptions used for strategic planning and budgeting, and also informs the Banking Group's Internal Capital Adequacy Assessment Process (ICAAP) which is the process ANZ New Zealand applies in strategic and capital planning over a 3-year time horizon;
- ii. Upside and iii. Downside scenarios
The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic events and uncertainty over long term horizons; and
- iv. Severe downside scenario
To better reflect the current economic conditions and geopolitical environment, ANZ New Zealand altered the severe downside scenario in 2022 from a scenario fixed by reference to average economic cycle conditions to one which aligns with the scenario used for stress testing.

The four scenarios are described in terms of macroeconomic variables used in the PD, LGD and EAD models (collectively the ECL models) depending on the lending portfolio and country of the borrower. Examples of the macroeconomic variables include unemployment rates, Growth Domestic Product (GDP) growth rates, residential property price indices, commercial property price indices and consumer price indices.

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

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

NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



KEY JUDGEMENTS AND ESTIMATES

Collectively assessed allowance for expected credit losses

In estimating collectively assessed ECL, ANZ New Zealand makes judgements and assumptions in relation to:

- the selection of an estimation technique or modelling methodology; and
- the selection of inputs for those models, and the interdependencies between those inputs.

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

The judgements and associated assumptions have been made within the context of the uncertainty as to how various factors might impact the global economy and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. ANZ New Zealand's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

Judgement / assumption	Description	Considerations for the year ended 30 September 2023
Determining when a SICR has occurred or reversed	<p>In the measurement of ECL, judgement is involved in determining whether there has been a SICR since initial recognition of a loan, which would result in it moving from Stage 1 to Stage 2. This is a key area of judgement since transition from Stage 1 to Stage 2 increases the ECL from an allowance based on the PD in the next 12 months, to an allowance for lifetime expected credit losses. Subsequent decreases in credit risk resulting in transition from Stage 2 to Stage 1 may similarly result in significant changes in the ECL allowance.</p> <p>The setting of precise SICR trigger points requires judgement which may have a material impact upon the size of the ECL allowance. ANZ New Zealand monitors the effectiveness of SICR criteria on an ongoing basis.</p>	The determination of SICR has been applied consistent with prior periods.
Measuring both 12-month and lifetime credit losses	<p>The PD, LGD and EAD factors used in determining ECL are point-in-time measures reflecting the relevant forward-looking information determined by management. Judgement is involved in determining which forward-looking information is relevant for particular lending portfolios and for determining each portfolio's point-in-time sensitivity.</p> <p>In addition, judgement is required where behavioural characteristics are applied in estimating the lifetime of a facility which is used in measuring ECL.</p>	<p>The PD, LGD and EAD models are subject to ANZ New Zealand's model risk policy that stipulates periodic model monitoring and re-validation, and defines approval procedures and authorities according to model materiality.</p> <p>There were no material changes to the policy.</p>
Base case economic forecast	ANZ New Zealand derives a forward-looking 'base case' economic scenario which reflects our view of future macroeconomic conditions.	<p>There have been no changes to the types of forward-looking variables (key economic drivers) used as model inputs.</p> <p>As at 30 September 2023, the base case assumptions have been updated to reflect a slowing economy and reduced levels of household consumption associated with continuing high interest rates and elevated levels of inflation.</p> <p>The expected outcomes of key economic drivers for the base case scenario at 30 September 2023 are described below under the heading 'Base case economic forecast assumptions'.</p>

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12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)


KEY JUDGEMENTS AND ESTIMATES

Judgement / assumption	Description	Considerations for the year ended 30 September 2023
Probability weighting of each economic scenario (base case, upside, downside and severe downside scenarios)¹	<p>Probability weighting of each economic scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario at each measurement date.</p> <p>The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.</p>	<p>Probability weightings in the current period have been adjusted to reflect our assessment of the downside risks from the impact of continued high interest rates and inflation.</p> <p>Weightings for current and prior periods are as detailed in the section below under the heading on 'Probability weightings'.</p>
Management temporary adjustments	<p>Management temporary adjustments to the ECL allowance are used in circumstances where it is judged that our existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. Emerging local or global macroeconomic, microeconomic or political events, natural disasters, and natural hazards that are not incorporated into our current parameters, risk ratings, or forward-looking information are examples of such circumstances.</p>	<p>Management have continued to apply adjustments to accommodate uncertainty associated with higher inflation and interest rates.</p> <p>In addition, management overlays have been made for risks particular to mortgages, commercial property and agri.</p> <p>Management temporary adjustments total NZ\$176 million (September 2022: NZ\$169 million).</p> <p>Management has considered and concluded no temporary adjustment is required at 30 September 2023 to the ECL allowance in relation to climate- or weather-related events during the year.</p>

¹ The upside and downside scenarios are fixed by reference to average economic cycle conditions (that is, they are not based on the economic conditions prevailing at balance date) and are based on a combination of more optimistic (in the case of the upside) and pessimistic (in the case of the downside) economic conditions.

Base case economic forecast assumptions

Continuing uncertainties described above increase the risk of the economic forecast resulting in an understatement or overstatement of the ECL balance.

The economic drivers of the base case economic forecasts, reflective of our view of future macroeconomic conditions, used at 30 September 2023 are set out below. For the years following the near term forecasts below, the ECL models apply simplified assumptions for the economic conditions to calculate lifetime loss.

New Zealand	Forecast calendar year		
	2023	2024	2025
GDP (annual % change)	0.7%	0.3%	1.5%
Unemployment rate (annual average)	3.8%	4.8%	5.1%
Residential property prices (annual % change)	-0.6%	2.3%	3.2%
Consumer price index (CPI) (annual % change)	6.0%	3.8%	2.2%

The base case economic forecasts are for a continuing slowdown in economic activity. Continued high inflation is expected to keep interest rates high and dampen growth over the forecast period.

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NOTES TO THE FINANCIAL STATEMENTS

12. ALLOWANCE FOR EXPECTED CREDIT LOSSES (continued)



KEY JUDGEMENTS AND ESTIMATES

Probability weightings

Probability weightings for each scenario are determined by management considering the risks and uncertainties surrounding the base case economic scenario including the uncertainties described above.

The base case weighting has increased to 50.0% (2022: 45.0%) as the downside and severe downside scenario weightings have been revised. The downside case weighting has decreased to 37.5% (2022: 40.0%), and the severe downside case weighting has decreased to 12.5% (2022: 15.0%).

The assigned probability weightings are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. ANZ New Zealand considers these weightings to provide estimates of the possible loss outcomes and taking into account short and long term inter-relationships within ANZ New Zealand's credit portfolios. The weightings applied are set out below:

	2023	2022
Base	50.0%	45.0%
Upside	0.0%	0.0%
Downside	37.5%	40.0%
Severe downside	12.5%	15.0%

ECL - Sensitivity analysis

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

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 30 September 2023:

	ECL NZ\$m	Impact on ECL NZ\$m
If 1% of Stage 1 facilities were included in Stage 2	802	10
If 1% of Stage 2 facilities were included in Stage 1	791	(1)
100% upside scenario	192	(600)
100% base scenario	341	(451)
100% downside scenario	598	(194)
100% severe downside scenario	1,770	978

Individually assessed allowance for expected credit losses

In estimating individually assessed ECL, ANZ New Zealand makes judgements and assumptions in relation to expected repayments, the realisable value of collateral, business prospects for the customer, competing claims and the likely cost and duration of the work-out process. Judgements and assumptions in respect of these matters have been updated to reflect amongst other things, the uncertainties described above and in Note 1 About our financial statements.

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FINANCIAL LIABILITIES

Outlined below is a description of how we classify and measure financial liabilities relevant to the note disclosures that follow.

✓ CLASSIFICATION AND MEASUREMENT

Financial liabilities

Financial liabilities are measured at amortised cost, or FVTPL when they are held for trading. Additionally, financial liabilities can be designated at FVTPL where:

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

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

13. DEPOSITS AND OTHER BORROWINGS

	Note	2023 NZ\$m	2022 NZ\$m
Term deposits		54,197	46,746
On demand and short term deposits		60,673	62,203
Deposits not bearing interest		17,658	21,381
Total customer deposits		132,528	130,330
Certificates of deposit		2,328	1,639
Commercial paper		2,253	2,955
Securities sold under repurchase agreements		4,429	4,642
Borrowings from Ultimate Parent Bank and Immediate Parent Company	26	2,854	2,916
Deposits and other borrowings		144,392	142,482
<i>Residual contractual maturity:</i>			
Within one year		135,960	134,486
More than one year		8,432	7,996
Deposits and other borrowings		144,392	142,482
<i>Carried on balance sheet at:</i>			
Amortised cost		141,510	139,527
Fair value through profit or loss (designated on initial recognition)		2,882	2,955
Deposits and other borrowings		144,392	142,482

✓ RECOGNITION AND MEASUREMENT

For deposits and other borrowings that:

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

Refer to Note 16 Fair value of financial assets and financial liabilities for further details.

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. DEBT ISSUANCES

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

	2023 NZ\$m	2022 NZ\$m
Senior debt	13,466	13,577
Covered bonds	3,373	4,082
Total unsubordinated debt	16,839	17,659
Subordinated debt		
- ANZ Capital Notes	-	1,100
- Other subordinated debt	1,655	1,724
Total subordinated debt	1,655	2,824
Total debt issued	18,494	20,483
<i>Residual contractual maturity:</i>		
Within one year	3,773	4,862
More than one year	14,721	15,621
Total debt issued	18,494	20,483

TOTAL DEBT ISSUED BY CURRENCY

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

	2023 NZ\$m	2022 NZ\$m
AUD Australian dollars	327	1,445
EUR Euro	6,053	6,668
NZD New Zealand dollars	1,646	1,794
CHF Swiss Francs	1,117	1,083
USD United States dollars	9,351	9,493
Total debt issued	18,494	20,483

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

ANZ CAPITAL NOTES

AU\$970 million of ANZ Capital Notes (ANZ CN3) were redeemed on 24 March 2023.



RECOGNITION AND MEASUREMENT

Debt issuances are initially recognised at fair value and are subsequently measured at amortised cost, except where designated at FVTPL. Interest expense on debt issuances is recognised using the effective interest rate method. Where ANZ New Zealand enters into a fair value hedge accounting relationship, the fair value attributable to the hedged risk is reflected in adjustments to the carrying value of the debt.

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

15. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND MODEL

INTRODUCTION

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

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

Key material financial risks	Key sections applicable to this risk
<p>Credit risk</p> <p>The risk of financial loss resulting from:</p> <ul style="list-style-type: none"> • a counterparty failing to fulfil its obligations; or • a decrease in credit quality of a counterparty resulting in a financial loss. <p>Credit risk incorporates the risks associated with us lending to customers who could be impacted by climate change, changes to laws, regulations, or other policies adopted by governments or regulatory authorities. Climate change impacts include both physical risks (climate- or weather-related events) and transition risks resulting from the adjustment to a low emissions economy. Transition risks include resultant changes to laws, regulations and policies noted above.</p>	<ul style="list-style-type: none"> • Credit risk overview, management and control responsibilities • Maximum exposure to credit risk • Credit quality • Concentrations of credit risk • Collateral management
<p>Market risk</p> <p>The risk to ANZ New Zealand's earnings arising from:</p> <ul style="list-style-type: none"> • changes in interest rates, foreign exchange rates, credit spreads, volatility and correlations; or • fluctuations in bond, commodity or equity prices. 	<ul style="list-style-type: none"> • Market risk overview, management and control responsibilities • Measurement of market risk • Traded and non-traded market risk • Foreign currency risk – structural exposure
<p>Liquidity and funding risk</p> <p>The risk that ANZ New Zealand is unable to meet its payment obligations as they fall due, including:</p> <ul style="list-style-type: none"> • repaying depositors or maturing wholesale debt; or • ANZ New Zealand having insufficient capacity to fund increases in assets. 	<ul style="list-style-type: none"> • Liquidity risk overview, management and control responsibilities • Key areas of measurement for liquidity risk • Liquidity portfolio management • Funding position • Residual contractual maturity analysis of ANZ New Zealand's liabilities

OVERVIEW

AN OVERVIEW OF OUR RISK MANAGEMENT FRAMEWORK

This overview is provided to aid the users of the financial statements in understanding the context of the financial disclosures required under NZ IFRS 7 *Financial Instruments: Disclosures*.

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

The Board approves the strategic objectives of ANZ New Zealand including:

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

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

ANZ New Zealand has an independent risk management function, headed by the Chief Risk Officer who:

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

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

Internal Audit Function

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

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

CREDIT RISK

CREDIT RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

- approves the credit risk appetite and credit strategies; and
- approves policies and control frameworks for the management of ANZ New Zealand's credit risk.

The BRC delegates responsibility for day-to-day management of credit risk and compliance with credit risk policies to the Bank's Credit Risk Management Committee (CRMC).

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

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

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

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

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

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

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

15. FINANCIAL RISK MANAGEMENT (continued)

MAXIMUM EXPOSURE TO CREDIT RISK

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

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

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

	Reported		Excluded ¹		Maximum exposure to credit risk	
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
On-balance sheet positions						
Net loans and advances	149,627	147,373	-	-	149,627	147,373
Other financial assets:						
Cash and cash equivalents	13,094	12,575	155	154	12,939	12,421
Settlement balances receivable	401	785	-	-	401	785
Collateral paid	801	1,672	-	-	801	1,672
Trading securities	5,921	7,228	-	-	5,921	7,228
Derivative financial instruments	8,747	15,478	-	-	8,747	15,478
Investment securities	10,958	11,357	-	-	10,958	11,357
Other financial assets ²	996	952	-	-	996	952
Total other financial assets	40,918	50,047	155	154	40,763	49,893
Subtotal	190,545	197,420	155	154	190,390	197,266
Off-balance sheet positions						
Undrawn and contingent facilities ³	28,477	29,879	-	-	28,477	29,879
Total	219,022	227,299	155	154	218,867	227,145

¹ Coins, notes and cash at bank within cash and cash equivalents were excluded as they do not have credit risk exposure.

² Other financial assets mainly comprise accrued interest and acceptances.

³ Undrawn and contingent facilities include guarantees, letters of credit and performance related contingencies, net of collectively assessed and individually assessed allowance for expected credit losses.

15. FINANCIAL RISK MANAGEMENT (continued)

Off-balance sheet commitments - undrawn and contingent facilities

	Stage 1 NZ\$m	Stage 2 NZ\$m	Stage 3		Total NZ\$m
			Collectively assessed NZ\$m	Individually assessed NZ\$m	
As at 30 September 2023					
Strong	24,088	202	-	-	24,290
Satisfactory	3,343	701	-	-	4,044
Weak	8	234	-	-	242
Defaulted	-	-	15	13	28
Gross undrawn and contingent facilities	27,439	1,137	15	13	28,604
Allowance for ECL included in other provisions (refer to Note 20)	(80)	(39)	(3)	(5)	(127)
Net undrawn and contingent facilities	27,359	1,098	12	8	28,477
Coverage ratio	0.29%	3.43%	20.00%	38.46%	0.44%
As at 30 September 2022					
Strong	25,593	224	-	-	25,817
Satisfactory	3,368	682	-	-	4,050
Weak	8	89	-	-	97
Defaulted	-	-	14	6	20
Gross undrawn and contingent facilities	28,969	995	14	6	29,984
Allowance for ECL included in other provisions (refer to Note 20)	(66)	(31)	(3)	(5)	(105)
Net undrawn and contingent facilities	28,903	964	11	1	29,879
Coverage ratio	0.23%	3.12%	21.43%	83.33%	0.35%

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15. FINANCIAL RISK MANAGEMENT (continued)

CONCENTRATIONS OF CREDIT RISK

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

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

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

	Loans and advances		Other financial assets		Off-balance sheet credit related commitments		Total	
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
New Zealand residents								
Agriculture	15,400	15,616	73	55	926	831	16,399	16,502
Forestry and fishing, agriculture services	549	624	6	16	100	113	655	753
Mining	181	123	12	20	250	350	443	493
Manufacturing	2,486	2,591	185	849	1,943	1,876	4,614	5,316
Electricity, gas, water and waste services	659	810	274	267	1,335	1,508	2,268	2,585
Construction	904	1,235	4	4	951	959	1,859	2,198
Wholesale trade	1,572	1,542	50	128	1,580	2,132	3,202	3,802
Retail trade and accommodation	2,944	2,713	18	12	606	735	3,568	3,460
Transport, postal and warehousing	1,156	994	77	40	591	860	1,824	1,894
Finance and insurance services	972	972	15,471	17,079	1,730	1,647	18,173	19,698
Rental, hiring & real estate services	37,737	38,859	2,024	1,915	1,879	2,610	41,640	43,384
Professional, scientific, technical, administrative and support services	981	880	9	12	422	397	1,412	1,289
Public administration and safety	201	199	8,910	9,924	776	855	9,887	10,978
Health care and social assistance	1,117	950	26	24	270	474	1,413	1,448
Households	79,581	76,182	370	250	13,814	13,426	93,765	89,858
Other ¹	1,335	1,097	112	133	1,362	1,122	2,809	2,352
Subtotal	147,775	145,387	27,621	30,728	28,535	29,895	203,931	206,010
Overseas								
Finance and insurance services	76	103	13,092	19,048	69	89	13,237	19,240
Households	1,489	1,407	7	5	-	-	1,496	1,412
All other non-residents	586	721	43	112	-	-	629	833
Subtotal	2,151	2,231	13,142	19,165	69	89	15,362	21,485
Gross subtotal	149,926	147,618	40,763	49,893	28,604	29,984	219,293	227,495
Allowance for ECL	(730)	(646)	-	-	(127)	(105)	(857)	(751)
Subtotal	149,196	146,972	40,763	49,893	28,477	29,879	218,436	226,744
Unearned income	(28)	(32)	-	-	-	-	(28)	(32)
Capitalised brokerage and other origination costs	459	433	-	-	-	-	459	433
Maximum exposure to credit risk	149,627	147,373	40,763	49,893	28,477	29,879	218,867	227,145

¹ Other includes exposures to information media and telecommunications; education and training; arts and recreation services; and other services.

15. FINANCIAL RISK MANAGEMENT (continued)

COLLATERAL MANAGEMENT

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

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

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

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

	Maximum exposure to credit risk		Total value of collateral		Unsecured portion of credit exposure	
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
Net loans and advances	149,627	147,373	142,180	139,455	7,447	7,918
Other financial assets	40,763	49,893	3,232	4,453	37,531	45,440
Off-balance sheet positions	28,477	29,879	15,542	15,758	12,935	14,121
Total	218,867	227,145	160,954	159,666	57,913	67,479

NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT (continued)

MARKET RISK

MARKET RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

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

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

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

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

Traded market risk	Non-traded market risk
<p>Risk of loss from changes in the value of financial instruments due to movements in price factors for both physical and derivative trading positions. Principal risk categories monitored are:</p> <ul style="list-style-type: none"> • Currency risk – potential loss arising from changes in foreign exchange rates or their implied volatilities. • Interest rate risk – potential loss from changes in market interest rates or their implied volatilities. • Credit spread risk – potential loss arising from a movement in margin or spread relative to a benchmark. • Commodity risk – potential loss arising from changes in commodity prices or their implied volatilities. • Equity risk – potential loss arising from changes in equity prices. 	<p>Risk of loss associated with the management of non-traded interest rate risk, liquidity risk and foreign exchange exposures. This includes interest rate risk in the banking book. This risk of loss arises from adverse changes in the overall and relative level of interest rates for different tenors, differences in the actual versus expected net interest margin, and the potential valuation risk associated with embedded options in financial instruments and bank products.</p>

MEASUREMENT OF MARKET RISK

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

VaR measures ANZ New Zealand's possible daily loss based on historical market movements.

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

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

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

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

15. FINANCIAL RISK MANAGEMENT (continued)

TRADED AND NON-TRADED MARKET RISK

Traded market risk

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

	2023				2022			
	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m
Traded value at risk 99% confidence								
Foreign exchange	0.8	1.6	0.5	0.9	1.0	1.5	0.2	0.7
Interest rate	1.7	6.2	1.1	2.0	3.1	4.8	1.2	2.5
Credit	1.0	1.1	0.4	0.7	0.9	1.1	0.4	0.7
Diversification benefit ¹	(1.8)	n/a	n/a	(1.3)	(1.3)	n/a	n/a	(1.3)
Total VaR	1.7	6.7	1.2	2.3	3.7	5.9	1.3	2.6

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

Non-traded market risk

Balance sheet risk management

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

Interest rate risk management

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

	2023				2022			
	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m	As at NZ\$m	High for year NZ\$m	Low for year NZ\$m	Average for year NZ\$m
Non-traded value at risk 99% confidence								
Total VaR	31.2	35.3	24.2	30.7	30.1	30.9	21.0	26.0

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

The table below shows the outcome of this risk measure for the current and previous financial years, expressed as a percentage of reported net interest income.

	2023	2022
Impact of 1% rate shock on the next 12 months' net interest income		
As at period end	0.1%	-0.5%
Maximum exposure	1.4%	0.5%
Minimum exposure	-0.7%	-2.2%
Average exposure (in absolute terms)	0.2%	-0.7%

FOREIGN CURRENCY RISK – STRUCTURAL EXPOSURES

Where it is considered appropriate, ANZ New Zealand takes out economic hedges against larger foreign exchange denominated expenditure streams (primarily Australian Dollar, US Dollar and US Dollar correlated). The primary objective of hedging these streams is to protect against a significant decrease in shareholder value due to negative impacts of foreign exchange rate movements.

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15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY AND FUNDING RISK

LIQUIDITY RISK OVERVIEW, MANAGEMENT AND CONTROL RESPONSIBILITIES

Liquidity risk is the risk that ANZ New Zealand:

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

Management of liquidity and funding is overseen by ALCO following delegation from the BRC. Within an overall framework established by the BRC, Treasury and Market & Treasury Risk have responsibility for the control of funding and liquidity risk at ANZ New Zealand level. Liquidity and funding risks are governed by a set of principles approved by the Risk Committees of the Bank's and Ultimate Parent Bank's Boards and include:

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

KEY AREAS OF MEASUREMENT FOR LIQUIDITY AND FUNDING RISK

Supervision and regulation

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

Scenario modelling

A key component of ANZ New Zealand's liquidity management framework is scenario modelling of a range of regulatory and internal liquidity metrics.

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

As of 30 September 2023 ANZ New Zealand was operating above the required minimums with the above scenarios.

Structural balance sheet metrics

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

Wholesale funding

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

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

Funding capacity and debt issuance planning

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

15. FINANCIAL RISK MANAGEMENT (continued)

LIQUIDITY PORTFOLIO MANAGEMENT

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

	2023 NZ\$m	2022 NZ\$m
Central and local government bonds	6,739	8,316
Government treasury bills	1,190	829
Certificates of deposit	318	656
Other bonds	8,193	8,372
Securities eligible to be accepted as collateral in repurchase transactions	16,440	18,173
Cash and balances with central banks	12,362	10,267
Total liquidity portfolio	28,802	28,440

Assets held in ANZ New Zealand's liquidity portfolio are all denominated in New Zealand dollars and include balances held with RBNZ and securities issued by the New Zealand Government, supranational agencies, highly rated banks, state owned enterprises, local authorities (including through a funding authority) and highly rated corporates.

The Bank also held unencumbered internal residential mortgage backed securities (RMBS) which would be accepted as collateral by RBNZ in repurchase transactions. These holdings would entitle the Bank to enter into repurchase transactions with RBNZ with a value of NZ\$10,776 million at 30 September 2023 (2022: NZ\$10,800 million).

RBNZ Term Lending Facility (TLF) and Funding for Lending Programme (FLP)

- Between May 2020 and July 2021, RBNZ made funds available under the TLF to promote lending to businesses. The TLF is a five-year secured funding facility for New Zealand banks at a fixed rate of 0.25%.
- Between November 2020 and December 2022, RBNZ made funds available under the FLP to lower the cost of borrowing for New Zealand businesses and households. The FLP is a three-year secured funding facility for New Zealand banks at a floating rate of the New Zealand Official Cash Rate (OCR).

As at 30 September 2023, the Bank had drawn NZ\$300 million (2022: NZ\$300 million) under the TLF and NZ\$3,500 million (2022: NZ\$2,500 million) under the FLP. These amounts are included in securities sold under repurchase agreements in Note 13 Deposits and other borrowings.

Liquidity crisis contingency planning

ANZ New Zealand maintains a liquidity crisis contingency plan to define an approach for analysing and responding to a liquidity-threatening event.

The framework includes:

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

FUNDING POSITION

ANZ New Zealand actively uses balance sheet disciplines to prudently manage the funding mix. ANZ New Zealand 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.

	Note	2023 NZ\$m	2022 NZ\$m
Funding composition			
Customer deposits	13	132,528	130,330
<i>Wholesale funding</i>			
Debt issuances		18,494	20,483
Certificates of deposit and commercial paper		4,581	4,594
Other borrowings		7,283	7,558
Total wholesale funding		30,358	32,635
Total deposits and wholesale funding		162,886	162,965

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15. FINANCIAL RISK MANAGEMENT (continued)

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

	2023 NZ\$m	2022 NZ\$m
Customer deposits by industry - New Zealand residents		
Agriculture, forestry and fishing	4,535	4,843
Mining	204	257
Manufacturing	2,809	2,808
Construction	2,926	2,800
Wholesale trade	2,361	2,808
Retail trade and accommodation	2,124	2,197
Transport, postal and warehousing	1,572	1,347
Financial and insurance services	13,899	13,516
Rental, hiring and real estate services	3,498	3,851
Professional, scientific, technical, administrative and support services	6,377	6,741
Public administration and safety	1,515	1,258
Health care and social assistance	1,375	1,397
Arts, recreation and other services	2,502	2,120
Households	74,511	71,752
All other New Zealand residents ¹	2,718	2,783
Subtotal	122,926	120,478
Customer deposits by industry - overseas		
Households	8,807	8,852
All other non-NZ residents	795	1,000
Subtotal	9,602	9,852
Total customer deposits	132,528	130,330
Wholesale funding (financial and insurance services industry)		
New Zealand	8,172	6,234
Overseas	22,186	26,401
Total wholesale funding	30,358	32,635
Total deposits and wholesale funding	162,886	162,965
Concentrations of funding by geography		
New Zealand	131,098	126,712
Australia	3,374	4,845
United States	12,234	12,986
Europe	9,363	11,424
Other countries	6,817	6,998
Total deposits and wholesale funding	162,886	162,965

¹ Other includes electricity, gas, water and waste services; information media and telecommunications; and education and training.

15. FINANCIAL RISK MANAGEMENT (continued)

RESIDUAL CONTRACTUAL MATURITY ANALYSIS OF ANZ NEW ZEALAND'S FINANCIAL LIABILITIES

The tables below provide residual contractual maturity analysis of financial liabilities at 30 September 2023 and 30 September 2022 within relevant maturity groupings. All outstanding debt issuances are profiled on the earliest date on which ANZ New Zealand may be required to pay. The amounts represent principal and interest cash flows – so they may differ from equivalent amounts reported on the balance sheet.

It should be noted that this is not how ANZ New Zealand manages its liquidity risk. The management of this risk is detailed on page 44.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	After 5 years	Total
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m
2023						
Settlement balances payable	2,425	488	-	-	-	2,913
Collateral received	-	1,500	-	-	-	1,500
Deposits and other borrowings	78,336	25,830	33,753	9,513	-	147,432
Derivative financial liabilities (trading)	-	8,179	-	-	-	8,179
Debt issuances ¹	-	500	3,572	15,075	2,261	21,408
Lease liabilities	-	14	40	149	17	220
Other financial liabilities	-	260	7	236	253	756
Derivative financial instruments (balance sheet management)						
- gross inflows	-	2,450	4,493	8,487	935	16,365
- gross outflows	-	(2,366)	(4,455)	(8,941)	(942)	(16,704)
2022						
Settlement balances payable	4,677	253	-	-	-	4,930
Collateral received	-	1,962	-	-	-	1,962
Deposits and other borrowings	83,587	24,315	27,546	8,649	-	144,097
Derivative financial liabilities (trading)	-	13,204	-	-	-	13,204
Debt issuances ¹	-	275	5,204	14,463	3,243	23,185
Lease liabilities	-	13	39	155	42	249
Other financial liabilities	-	154	8	273	215	650
Derivative financial instruments (balance sheet management)						
- gross inflows	-	1,241	4,444	6,595	458	12,738
- gross outflows	-	(1,251)	(4,754)	(6,736)	(482)	(13,223)

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

At 30 September 2023, NZ\$28,604 million (2022: NZ\$29,984 million) of its credit related commitments and contingent liabilities mature in less than 1 year, based on the earliest date on which ANZ New Zealand may be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

16. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

ANZ New Zealand recognises and measures financial instruments at either fair value or amortised cost, with a significant number of financial instruments on the balance sheet at fair value.

Fair value is the best estimate of the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The following tables set out the classification of financial assets and liabilities according to their measurement bases together with their carrying amounts as recognised on the balance sheet.

	Note	2023			2022		
		At amortised cost NZ\$m	At fair value NZ\$m	Total NZ\$m	At amortised cost NZ\$m	At fair value NZ\$m	Total NZ\$m
Financial assets							
Cash and cash equivalents ¹	7	12,426	668	13,094	12,575	-	12,575
Settlement balances receivable		401	-	401	785	-	785
Collateral paid		801	-	801	1,672	-	1,672
Trading securities	8	-	5,921	5,921	-	7,228	7,228
Derivative financial instruments	9	-	8,747	8,747	-	15,478	15,478
Investment securities	10	-	10,958	10,958	-	11,357	11,357
Net loans and advances	11	149,627	-	149,627	147,373	-	147,373
Other financial assets		996	-	996	952	-	952
Total		164,251	26,294	190,545	163,357	34,063	197,420
Financial liabilities							
Settlement balances payable		2,886	-	2,886	4,887	-	4,887
Collateral received		1,500	-	1,500	1,962	-	1,962
Deposits and other borrowings ¹	13	141,510	2,882	144,392	139,527	2,955	142,482
Derivative financial instruments	9	-	8,287	8,287	-	13,571	13,571
Debt issuances	14	18,494	-	18,494	20,483	-	20,483
Other financial liabilities		1,266	371	1,637	763	364	1,127
Total		165,656	11,540	177,196	167,622	16,890	184,512

During 2023, ANZ New Zealand commenced the management of repurchase agreements and reverse repurchase agreements on a fair value basis within the trading book in its Markets business. This resulted in the associated reverse repurchase and reverse repurchase agreements being recognised and measured at FVTPL.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE

The fair valuation of financial assets and financial liabilities is generally determined at the individual instrument level.

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

Fair value designation

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

FAIR VALUE APPROACH AND VALUATION TECHNIQUES

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

Asset or liability	Fair value approach
Financial instruments classified as:	Discounted cash flow techniques are used whereby contractual future cash flows of the instrument are discounted using wholesale market interest rates, or market borrowing rates for debt or loans with similar maturities or yield curve appropriate for the remaining term to maturity.
- Derivative financial assets and financial liabilities (including trading and non-trading)	
- Reverse repurchase agreements < 90 days	
- Net loans and advances	
- Deposits and other borrowings	
- Debt issuances	
Financial instruments classified as:	Valuation techniques use comparable multiples (such as price-to-book ratios) or discounted cashflow (DCF) techniques incorporating, to the extent possible, observable inputs from instruments with similar characteristics.
- Trading securities	
- Investment securities	

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

FAIR VALUE HIERARCHY

ANZ New Zealand categorises assets and liabilities carried at fair value into a fair value hierarchy in accordance with NZ IFRS 13 based on the observability of inputs used to measure the fair value:

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

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

	Fair value measurements							
	Quoted price in active markets (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
Assets								
Cash and cash equivalents ¹	-	-	668	-	-	-	668	-
Trading securities ²	3,989	5,565	1,932	1,663	-	-	5,921	7,228
Derivative financial instruments	38	109	8,709	15,369	-	-	8,747	15,478
Investment securities ²	7,796	10,895	3,161	461	1	1	10,958	11,357
Total	11,823	16,569	14,470	17,493	1	1	26,294	34,063
Liabilities								
Deposits and other borrowings ¹	-	-	2,882	2,955	-	-	2,882	2,955
Derivative financial instruments	2	8	8,275	13,551	10	12	8,287	13,571
Other financial liabilities	367	364	4	-	-	-	371	364
Total	369	372	11,161	16,506	10	12	11,540	16,890

During 2023, ANZ New Zealand commenced the management of repurchase agreements and reverse repurchase agreements on a fair value basis within the trading book in its Markets business. This resulted in the associated reverse repurchase and reverse repurchase agreements being recognised and measured at FVTPL.

During 2023, NZ\$1,685 million of assets were transferred from Level 1 to Level 2 and \$338 million of assets were transferred from Level 2 to Level 1 for ANZ New Zealand due to a change of the observability of valuation inputs. There were no other material transfers between Level 1 and Level 2 during the year. Transfers into and out of levels are measured at the beginning of the reporting period in which the transfer occurred.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE

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

Fair values of financial assets and liabilities carried at amortised cost not included in the table below approximate their carrying values. These financial assets and liabilities are either short term in nature or are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

	Categorised into fair value hierarchy									
	At amortised cost		Quoted price in active markets (Level 1)		Using observable inputs (Level 2)		With significant non-observable inputs (Level 3)		Total fair value	
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
Financial assets										
Net loans and advances	149,627	147,373	-	-	95	136	148,469	145,623	148,564	145,759
Total	149,627	147,373	-	-	95	136	148,469	145,623	148,564	145,759
Financial liabilities										
Deposits and other borrowings	141,510	139,527	-	-	141,423	139,316	-	-	141,423	139,316
Debt issuances	18,494	20,483	2,367	3,677	16,101	16,679	-	-	18,468	20,356
Total	160,004	160,010	2,367	3,677	157,524	155,995	-	-	159,891	159,672

NOTES TO THE FINANCIAL STATEMENTS

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

The following table sets out ANZ New Zealand's basis of estimating the fair values of financial assets and liabilities carried at amortised cost where the carrying value is not typically a reasonable approximation of fair value.

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



KEY JUDGEMENTS AND ESTIMATES

A significant portion of financial instruments are carried on ANZ New Zealand's balance sheet at fair value. ANZ New Zealand therefore regularly evaluates the key valuation assumptions used in the determination of the fair valuation of financial instruments incorporated within the financial statements, as this can involve a high degree of judgement and estimation in determining the carrying values at the balance sheet date.

In determining the fair valuation of financial instruments, ANZ New Zealand has considered the impact of related economic and market conditions on fair value measurement assumptions and the appropriateness of valuation inputs in these estimates, notably valuation adjustments, as well as the impact of these matters on the classification of financial instruments in the fair value hierarchy.

Most of the valuation models ANZ New Zealand uses employ only observable market data as inputs. For certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available. When establishing the fair value of a financial instrument using a valuation technique, ANZ New Zealand also considers any required valuation adjustments in determining the fair value. We may apply adjustments (such as credit valuation adjustments and funding valuation adjustments – refer Note 9 Derivative financial instruments) to reflect ANZ New Zealand's assessment of factors that market participants would consider in determining fair value of a particular financial instrument.

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

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

ASSETS CHARGED AS SECURITY FOR LIABILITIES

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

- securities provided as collateral for repurchase transactions. These transactions are governed by standard industry agreements;
- specified residential mortgages provided as security for notes and bonds issued to investors as part of ANZ New Zealand's covered bond programmes;
- collateral provided to RBNZ under the TLF and FLP; and
- collateral provided to a clearing house.

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

	2023 NZ\$m	2022 NZ\$m
Securities sold under arrangements to repurchase ¹	626	1,833
Residential mortgages provided as security for repurchase agreements with RBNZ	4,844	3,494
Total assets of the ANZNZ Covered Bond Trust pledged as security for covered bonds	10,926	10,921
Other ²	300	323

¹ The amounts disclosed as securities sold under arrangements to repurchase include both:

- assets pledged as security which continue to be recognised on ANZ New Zealand's balance sheet; and
- assets repledged, which are included in the disclosure below.

² Comparative amounts have been adjusted to be consistent with the current period's collateral securities.

COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

ANZ New Zealand has received collateral associated with various financial transactions. Under certain arrangements ANZ New Zealand has the right to sell, or to repledge, the collateral received. These arrangements are governed by standard industry agreements.

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

	2023 NZ\$m	2022 NZ\$m
Fair value of assets which can be sold or repledged	667	1,233
Fair value of assets sold or repledged	432	959

NOTES TO THE FINANCIAL STATEMENTS

18. OFFSETTING

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

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

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

	Total amounts recognised in the balance sheet NZ\$m	Amounts not subject to master netting agreement or similar NZ\$m	Amount subject to master netting agreement or similar			
			Total NZ\$m	Financial instruments NZ\$m	Financial collateral (received)/pledged NZ\$m	Net amount NZ\$m
2023						
Derivative financial assets	8,747	(1,529)	7,218	(5,588)	(538)	1,092
Reverse repurchase agreements ¹	668	-	668	-	(668)	-
Total financial assets	9,415	(1,529)	7,886	(5,588)	(1,206)	1,092
Derivative financial liabilities	(8,287)	1,670	(6,617)	5,588	222	(807)
Repurchase agreements ²	(4,429)	-	(4,429)	-	4,429	-
Total financial liabilities	(12,716)	1,670	(11,046)	5,588	4,651	(807)
2022						
Derivative financial assets	15,478	(4,180)	11,298	(9,814)	(1,128)	356
Reverse repurchase agreements ¹	1,248	-	1,248	-	(1,248)	-
Total financial assets	16,726	(4,180)	12,546	(9,814)	(2,376)	356
Derivative financial liabilities	(13,571)	2,669	(10,902)	9,814	334	(754)
Repurchase agreements ²	(4,642)	-	(4,642)	-	4,642	-
Total financial liabilities	(18,213)	2,669	(15,544)	9,814	4,976	(754)

Reverse repurchase agreements are presented in the balance sheet within cash and cash equivalents.

Repurchase agreements are presented in the balance sheet within deposits and other borrowings.

19. GOODWILL AND OTHER INTANGIBLE ASSETS

	2023 NZ\$m	2022 NZ\$m
Goodwill	3,006	3,006
Software	39	17
Other intangible assets	86	76
Goodwill and other intangible assets	3,131	3,099

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

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

Goodwill and funds management rights are allocated to CGUs as follows. Comparative amounts for Business & Agri (previously Business) and Institutional have been updated for the segment changes described in Note 6 Segment reporting.

Cash generating unit	Goodwill		Management rights	
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
Personal	980	980	-	-
Funds Management	62	62	76	76
Personal segment	1,042	1,042	76	76
Business & Agri (previously Business)	695	695	-	-
Institutional	1,269	1,269	-	-
Total	3,006	3,006	76	76

Goodwill was assessed for indicators of impairment as at 30 September 2023, taking into account the results of the February 2023 impairment test and associated sensitivity and scenario analysis performed and the forecast impact of recent economic events. There were no indicators of impairment therefore, in accordance with NZ IAS 36 *Impairment of Assets*, no further impairment test was required.

The following information is for the annual goodwill impairment test, and reflects the CGUs and goodwill allocations as at 28 February 2023.

Annual goodwill impairment test

The annual impairment test is performed as at the end of February each year. Goodwill is considered to be impaired if the carrying amount of the relevant CGU exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal (FVLCD) and its value-in use (VIU). We use a value-in-use approach to estimate the recoverable amount of the CGU to which each goodwill component is allocated. Based on this assessment no impairment was identified for any CGU, and therefore a FVLCD calculation was not required.

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NOTES TO THE FINANCIAL STATEMENTS

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

VALUE-IN-USE

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

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

Input / assumption	Values applied in 28 February 2023 impairment test
Forecast period and projections	To 30 September 2028 - an extended forecast period was used to cover the implementation of RBNZ's increased capital requirements over the transition period ending on 1 July 2028.
Revenue growth over forecast period	Comprises impacts of net interest margin and volume growth, arising from planned responses to known regulatory and economic forecasts. Average annual forecast revenue growth rates are shown below.
Credit impairment over forecast period	Varies by CGU, based on ECL modelling for 2023 and 2024, before returning to long run experience levels for 2025 to 2028. Long run experience levels are based on ANZ New Zealand's bad debts written off, net of recoveries, since 2004 of 0.14% of gross loans and advances. Credit impairment for each CGU as a percentage of forecast gross loans and advances for 2025 to 2028 is shown below.
Terminal growth rate	2.0% - based on 2026 forecast inflation from RBNZ's February 2023 Monetary Policy Statement.
Discount rate	Post tax: 11.9% (February 2022: 10.7%). The main variables in the calculation of the discount rate used are the risk free rate, beta and the market risk premium. The risk-free rate was the traded 10-year New Zealand government bond yield as at 28 February 2023 of 4.6%. The market risk premium was estimated using observed historic rates of return for the New Zealand stock exchange and 10-year government bonds. Beta was consistent with observable measures applied in the regional banking sector.

The values of the average revenue growth, credit impairment as a percentage of forecast gross loans and advances, and pre-tax discount rates assumptions by CGU are shown in the table below. The implied pre-tax discount rates are significantly higher than the post-tax discount rate above because regulatory capital retention over the forecast period is not tax effected. Comparative amounts for Business & Agri and Institutional have been updated for the segment changes described in Note 6 Segment reporting.

Cash generating unit	Revenue growth		Credit impairment		Pre-tax discount rate	
	28 Feb 23	28 Feb 22	28 Feb 23	28 Feb 22	28 Feb 23	28 Feb 22
Personal	2.2%	5.1%	0.07%	0.12%	24.1%	20.8%
Funds Management	5.6%	6.4%	n/a	n/a	21.5%	18.6%
Business & Agri	2.8%	5.8%	0.15%	0.22%	23.5%	20.6%
Institutional	1.8%	3.8%	0.17%	0.20%	23.3%	20.9%

We performed stress tests for key sensitivities in each CGU. A change, considered to be reasonably possible by management, in key assumptions would not cause the carrying amount of any CGU to exceed its recoverable amount.

19. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

 **RECOGNITION AND MEASUREMENT**

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

	Goodwill	Software	Other intangibles
Definition	Excess amount ANZ New Zealand has paid in acquiring a business over the fair value of the identifiable assets and liabilities acquired.	Purchased software owned by ANZ New Zealand is capitalised. Internal and external costs incurred in building software and computer systems costing greater than NZ\$20 million are capitalised as assets. Those less than NZ\$20 million are expensed in the year in which the costs are incurred. Costs incurred in planning or evaluating software proposals or in maintaining systems after implementation are not capitalised	Management fee rights arising from acquisition of funds management business and other intangible assets arising from contractual rights and other business acquisitions.
Carrying value	Cost less any accumulated impairment losses. Allocated to the CGU to which the acquisition relates.	Initially, measured at cost. Subsequently, carried at cost less accumulated amortisation and impairment losses.	Initially, measured at fair value at acquisition. Subsequently, carried at cost less accumulated amortisation and impairment losses.
Useful life	Indefinite. Goodwill is reviewed for impairment at least annually or when there is an indication of impairment.	Except for major core infrastructure, amortised over periods between 2-5 years; however major core infrastructure may be amortised over 7 years subject to approval by the Audit Committee. Purchased software is amortised over 2 years unless it is considered integral to other assets with a longer useful life.	Management fee rights have an indefinite life and are reviewed for impairment at least annually or when there is an indication of impairment. Other intangible assets are amortised over 3 years.
Amortisation method	Not applicable.	Straight-line method.	Not applicable.

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 **KEY JUDGEMENTS AND ESTIMATES**

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

Goodwill

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

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

The assessment of the recoverable amount of each CGU has been made within the context of the inherent uncertainty described in the key judgements and estimates section on page 9.

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER PROVISIONS

	Note	2023 NZ\$m	2022 NZ\$m
ECL allowance on undrawn and contingent facilities	12	127	105
Customer remediation		36	70
Restructuring costs		10	11
Leasehold make good		21	22
Other		17	14
Total other provisions		211	222

Movements in other provisions

	Customer remediation NZ\$m	Restructuring costs NZ\$m	Leasehold make good NZ\$m	Other NZ\$m
Balance at 1 October 2022	70	11	22	14
New and increased provisions made during the year	1	5	-	3
Provisions used during the year	(29)	(5)	(1)	-
Unused amounts reversed during the year	(6)	(1)	-	-
Balance at 30 September 2023	36	10	21	17

Customer remediation

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

Restructuring costs

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

Leasehold make good

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

Other

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



RECOGNITION AND MEASUREMENT

ANZ New Zealand recognises provisions when there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably.

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



KEY JUDGEMENTS AND ESTIMATES

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

In relation to customer remediation, determining the amount of the provisions, which represent management's best estimate of the cost of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including the number of impacted customers, the average refund per customer, the associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances. There is a heightened level of estimation uncertainty where the customer remediation provision relates to a legal proceeding or matter. The appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence including expert legal advice and adjustments are made to the provisions where appropriate.

21. SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

	2023 NZ\$m	2022 NZ\$m
Share capital	11,074	11,055
Reserves		
FVOCI reserve	(39)	22
Cash flow hedge reserve	(54)	26
Total reserves	(93)	48
Retained earnings	5,164	4,369
Equity attributable to shareholders of the Ultimate Non-Bank Holding Company	16,145	15,472
Non-controlling interests	550	550
Total shareholders' equity	16,695	16,022

SHARE CAPITAL

The table below details the movement in issued shares and share capital for the period.

	Number of issued shares		NZ\$ millions	
	2023	2022	2023	2022
Ordinary shares	378,155,112	378,155,112	1,450	1,450
Acquisition of DOT Data Limited	100,000	-	-	-
Ordinary shares issued	12,500	-	2	-
Total ordinary shares	378,267,612	378,155,112	1,452	1,450
Redeemable preference shares ¹	8,354,563,940	8,354,563,940	9,594	9,594
Subtotal	8,732,831,552	8,732,719,052	11,046	11,044
NZ Branch initial head office account	-	-	11	11
Non-bank branch capital	-	-	17	-
Total share capital	8,732,831,552	8,732,719,052	11,074	11,055

¹ Includes 44,990 (2022: 44,990) uncalled NZ\$1.00 shares.

Redeemable preference shares

All redeemable preference shares (RPS) were issued by ANZ Holdings (New Zealand) Limited to the Immediate Parent Company. RPS are redeemable by ANZ Holdings (New Zealand) Limited providing notice in writing to holders of the redeemable preference shares. Dividends are payable at the discretion of the Directors of ANZ Holdings (New Zealand) Limited and are non-cumulative.

There are eight classes of RPS, relating to issues in 1988, 2005, 2007, 2008, 2009, 2014, 2015 and 2018. ANZ Holdings (New Zealand) Limited did not pay any dividends on RPS during the years ended 30 September 2023 and 30 September 2022.

NON-CONTROLLING INTERESTS

ANZ New Zealand has issued perpetual preference shares (PPS). The PPS are considered non-controlling interests to ANZ New Zealand.

	Profit attributable to non-controlling interest		Equity attributable to non-controlling interest		Dividend paid to non-controlling interests	
	2023	2022	2023	2022	2023	2022
Perpetual preference shares	27	-	550	550	27	-
Total	27	-	550	550	27	-

The key terms of the PPS are as follows:

PPS dividends

PPS 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 PPS dividend payment date if a PPS dividend is not paid.

Should the Bank elect to pay a PPS dividend, the PPS dividend is 6.95% per annum up until 18 July 2028 and thereafter a floating rate equal to the aggregate of the New Zealand 3 month bank bill rate plus 3.25%, multiplied by one minus the New Zealand company tax rate (where the PPS dividend is fully imputed), with PPS dividend payments due on 18 January, 18 April, 18 July and 18 October each year.

Redemption features

Holders of PPS have no right to require that the PPS be redeemed. The Bank may at its option redeem all of the PPS on an optional redemption date (each PPS dividend date from 18 July 2028); or at any time following the occurrence of a tax event or regulatory event, subject to prior written approval of RBNZ and meeting of other conditions.

NOTES TO THE FINANCIAL STATEMENTS

21. SHAREHOLDERS' EQUITY (continued)

✓ RECOGNITION AND MEASUREMENT

Ordinary shares	<p>Ordinary shares have no par value. They entitle holders to receive dividends, or proceeds available on winding up of ANZ Holdings (New Zealand) Limited, in proportion to the number of fully paid ordinary shares held. They are recognised at the amount paid per ordinary share net of directly attributable costs. Every holder of fully paid ordinary shares present at a meeting in person, or by proxy, is entitled to:</p> <ul style="list-style-type: none"> • on a show of hands, one vote; and • on a poll, one vote, for each share held.
Redeemable preference shares	<p>Redeemable preference shares do not carry any voting rights. They 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.</p> <p>In the event of liquidation, holders of redeemable preference shares are entitled to available subscribed capital per share, <i>pari passu</i> with all holders of existing redeemable preference shares but in priority to all holders of ordinary shares. They have no entitlement to participate in further distribution of profits or assets.</p>
Reserves:	
Cash flow hedge reserve	Includes fair value gains and losses associated with the effective portion of designated cash flow hedging instruments together with any tax effect.
FVOCI reserve	<p>Includes the changes in fair value of investment securities together with any tax effect.</p> <p>In respect of debt securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition, except for those relating to allowance for ECL, interest income and foreign currency exchange gains and losses which are recognised in profit or loss. As debt securities at FVOCI are recorded at fair value, the balance of the FVOCI reserve is net of the ECL allowance associated with such assets. When a debt security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is reclassified to profit or loss and presented in other operating income.</p> <p>In respect of the equity securities classified as measured at FVOCI, the FVOCI reserve records accumulated changes in fair value arising subsequent to initial recognition (including any related foreign exchange gains or losses). When an equity security measured at FVOCI is derecognised, the cumulative gain or loss recognised in the FVOCI reserve in respect of that security is not recycled to profit or loss.</p>
Non-controlling interests:	<p>Share in the net assets of controlled entities attributable to equity interests which ANZ New Zealand does not own directly or indirectly. The equity interest comprises PPS issued by the Bank.</p> <p>PPS do not carry any voting rights. They 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.</p> <p>In the event of liquidation, holders of PPS are entitled to available subscribed capital per share, <i>pari passu</i> with all holders of existing preference shares and other equally ranking subordinated debt issued by the Bank but in priority to all holders of ordinary shares issued by the Bank. They have no entitlement to participate in further distribution of profits or assets.</p>

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22. CAPITAL MANAGEMENT

CAPITAL MANAGEMENT STRATEGY

ANZ New Zealand's core capital objectives are to:

- protect the interests of depositors, creditors and shareholders;
- ensure the safety and soundness of ANZ New Zealand's capital position; and
- ensure that the capital base supports ANZ New Zealand's risk appetite, and strategic business objectives, in an efficient and effective manner.

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

The Banking Group has minimum and trigger levels for capital that ensure sufficient capital is maintained to:

- meet minimum prudential requirements imposed by the Bank's regulators;
- ensure consistency with the Banking Group's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- support the internal risk capital requirements of the business.

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

MANAGED CAPITAL

The Banking Group is subject to its own regulatory capital requirements as administered by RBNZ. The following table provides details of the capital of ANZ New Zealand which is managed outside the Banking Group.

	2023 NZ\$m	2022 NZ\$m
ANZ New Zealand shareholders' equity	16,695	16,022
Subordinated loan from the Ultimate Parent Bank used to purchase preference shares issued by the Bank	285	301
Borrowings from the Immediate Parent Company used to purchase ordinary shares issued by the Bank	1,766	1,766
Less: Banking Group shareholders' equity	(18,421)	(17,784)
Capital of ANZ New Zealand managed outside the Banking Group	325	305
Total assets of ANZ New Zealand held outside the Banking Group	319	308
Ratio	101.9%	99.0%

NOTES TO THE FINANCIAL STATEMENTS

23. CONTROLLED ENTITIES

The following table lists the subsidiaries of ANZ New Zealand. All subsidiaries are 100% owned and incorporated in New Zealand unless stated otherwise.

ANZ Group Holdings Limited²	Nature of business Holding company
Australia and New Zealand Banking Group Limited (New Zealand Branch) ²	Registered bank
ANZ Holdings (New Zealand) Limited	Holding company
ANZ Bank New Zealand Limited	Registered bank
ANZ Custodial Services New Zealand Limited	Custodian and nominee
ANZ Investment Services (New Zealand) Limited	Funds management
ANZ National Staff Superannuation Limited	Staff superannuation scheme trustee
ANZ New Zealand (Int'l) Limited	Finance
ANZ New Zealand Investments Holdings Limited	Holding company
ANZ New Zealand Investments Limited	Funds management
ANZ New Zealand Investments Nominees Limited	Custodian and nominee
OneAnswer Nominees Limited	Wrap services provider
ANZNZ Covered Bond Trust ¹	Securitisation entity
Arawata Assets Limited	Property
Endeavour Finance Limited	Investment
Kingfisher NZ Trust 2008-1 ¹	Securitisation entity
ANZ Nominees Pty Limited (New Zealand Branch) ²	Nominee
Institutional Securitisation Services Limited (New Zealand Branch) ²	Securitisation services
DOT Data Limited	Data processing services

ANZ New Zealand does not own ANZNZ Covered Bond Trust and Kingfisher NZ Trust 2008-1. Control exists as ANZ New Zealand retains substantially all the risks and rewards of the operations. Details of ANZ New Zealand's interest in consolidated structured entities is included in Note 24 Structured entities.
Incorporated in Australia and registered in New Zealand as an Overseas ASIC Company.

Changes in the composition of ANZ New Zealand

- ANZ Group Holdings Limited became the ultimate parent company of the ANZ Group on 3 January 2023, as explained on page 8.
- DOT Data Limited was acquired on 1 March 2023.



RECOGNITION AND MEASUREMENT

ANZ New Zealand subsidiaries are those entities it controls through:

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

ANZ New Zealand assesses whether it has power over those entities by examining ANZ New Zealand's existing rights to direct the relevant activities of the entity.

24. STRUCTURED ENTITIES

A Structured Entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in determining who controls the entity. SEs are generally established with restrictions on their ongoing activities in order to achieve narrow and well defined objectives.

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

ANZ New Zealand's involvement with SEs is as follows:

Type	Details
Securitisation	<p>ANZ New Zealand uses the Kingfisher NZ Trust 2008-1 (the Kingfisher Trust) to securitise residential mortgages that it has originated, in order to diversify sources of funding for liquidity management. The Kingfisher Trust is an internal securitisation (bankruptcy remote) vehicle created for the purpose of structuring assets that are eligible for repurchase under agreements with RBNZ (these are known as 'Repo eligible').</p> <p>ANZ New Zealand is exposed to variable returns from its involvement with the Kingfisher Trust and has the ability to affect those returns through its power over the Kingfisher Trust's activities. The Kingfisher Trust is therefore consolidated.</p> <p>As at 30 September 2023 and 30 September 2022, ANZ New Zealand had entered into repurchase agreements with RBNZ in relation to the TLF and FLP.</p> <p>Additionally, ANZ New Zealand may acquire interests in securitisation vehicles set up by third parties through providing lending facilities to, or holding securities issued by, such entities.</p>
ANZNZ Covered Bond Trust (the Covered Bond Trust)	<p>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 priority ranking creditors of the Covered Bond Trust have been satisfied.</p> <p>ANZ New Zealand is exposed to variable returns from its involvement with the Covered Bond Trust and has the ability to affect those returns through its power over the Covered Bond Trust's activities. The Covered Bond Trust is therefore consolidated.</p>
Structured finance arrangements	<p>ANZ New Zealand is involved with SEs established:</p> <ul style="list-style-type: none"> • in connection with structured lending transactions to facilitate debt syndication and/or to ring-fence collateral; and • to own assets that are leased to customers in structured leasing transactions. <p>ANZ New Zealand may provide risk management products (derivatives) to the SE.</p> <p>In all instances, ANZ New Zealand does not control these SEs. Further, ANZ New Zealand's involvement does not establish more than a passive interest in decisions about the relevant activities of the SE, and accordingly we do not consider that interest disclosable.</p>
Funds management activities	<p>ANZ New Zealand is the scheme manager for a number of Managed Investment Schemes (MIS). These MIS include the ANZ and OneAnswer branded KiwiSaver, retail and wholesale schemes and the Bonus Bonds Scheme. These MIS are financed through the issue of units to investors and ANZ New Zealand considers them to be SEs. ANZ New Zealand's interests in these MIS are limited to receiving fees for services or providing risk management products (derivatives). These interests do not create significant exposures to the MIS that would allow ANZ New Zealand to control the funds. Therefore, these MIS are not consolidated.</p>

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NOTES TO THE FINANCIAL STATEMENTS

24. STRUCTURED ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITIES

Financial or other support provided to consolidated SEs

The Bank provides lending facilities, derivatives and commitments to the Kingfisher Trust and the Covered Bond Trust and/or holds debt instruments that they have issued. The Bank did not provide any non-contractual support to consolidated SEs during the year (2022: nil).

UNCONSOLIDATED STRUCTURED ENTITIES

ANZ New Zealand's interest in unconsolidated SEs

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

For the purpose of disclosing interests in unconsolidated SEs:

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

ANZ New Zealand earned funds management fees from its MIS of NZ\$192 million (2022: NZ\$196 million) during the year. As at 30 September 2023, ANZ New Zealand had total funds under management of NZ\$37.1 billion (2022: NZ\$34.3 billion) of which NZ\$26.1 billion (2022: NZ\$24.6 billion) related to its MIS, with the largest individual fund being approximately NZ\$4.4 billion (2022: NZ\$3.8 billion).

ANZ New Zealand did not provide any non-contractual support to unconsolidated SEs during the year (2022: nil); nor does it have any current intention to provide financial or other support to unconsolidated SEs.

SPONSORED UNCONSOLIDATED STRUCTURED ENTITIES

ANZ New Zealand may also sponsor unconsolidated SEs in which it has no disclosable interest.

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

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

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



KEY JUDGEMENTS AND ESTIMATES

Significant judgement is required in assessing whether ANZ New Zealand has control over SEs. Judgement is required to determine the existence of:

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

25. TRANSFERS OF FINANCIAL ASSETS

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

Covered bonds

ANZ New Zealand operates a covered bond programme to raise funding. Refer to Note 24 Structured entities for further details. The covered bonds issued externally are included within debt issuances.

Repurchase agreements

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

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

	Covered bonds		Repurchase agreements	
	2023 NZ\$m	2022 NZ\$m	2023 NZ\$m	2022 NZ\$m
Current carrying amount of assets transferred	10,926	10,921	5,470	5,327
Carrying amount of associated liabilities	3,373	4,082	4,429	4,642

26. RELATED PARTY DISCLOSURES

Key management personnel and their related parties

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

	2023 NZ\$000	2022 NZ\$000
Key management personnel compensation¹		
Salaries and short-term employee benefits	12,139	12,077
Post-employment benefits	351	365
Other long-term benefits ²	78	93
Termination benefits ³	-	68
Share-based payments	3,589	2,887
Total	16,157	15,490

¹ Includes former disclosed KMPs until the end of their employment, and close family members of KMP employed by the Banking Group.

² Comprises long service leave accrued during the year.

³ Includes payments for accrued annual leave, long service leave and pay in lieu of notice in accordance with contract, payable on cessation.

	2023 NZ\$m	2022 NZ\$m
Transactions and balances with key management personnel and their related parties¹		
Secured loans and advances	24	28
Credit related commitments (undrawn loan facilities)	3	3
Interest income	1	1
Customer deposits	22	17
Payables and other liabilities (share-based payments liability)	3	3

¹ Includes KMP, close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members, of ANZ New Zealand and its parent companies.

Loans made to KMP and their related parties are made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees or customers, including the term of the loan, security required and the interest rate. No amounts have been written off or forgiven, or individually assessed allowances for expected credit losses raised in respect of these balances (2022: nil).

All other transactions with KMP and their related parties are made on terms and conditions no more favourable than those given to other employees or customers. These transactions generally involve the provision of financial and investment services. In addition to the amounts above:

- Aggregate amounts for each of unsecured loans and advances, interest expense, fee income, debt issuances and collectively assessed credit impairment charge and allowance for expected credit losses were less than NZ\$1 million for both years presented.
- KMP and their related parties also hold units in MIS managed by ANZ New Zealand. Transactions and balances in respect of these MIS holdings are not disclosed because those MIS are unconsolidated structured entities and not included in the financial statements of ANZ New Zealand.
- Some KMP pay ANZ New Zealand for the use of carparks in premises owned or leased by ANZ New Zealand. These amounts were less than NZ\$0.1 million (2022: less than NZ\$0.1 million).

NOTES TO THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES (continued)

Transactions with other members of the ANZ Group and associates

ANZ New Zealand undertakes transactions with the Immediate Parent Company, the Ultimate Parent Bank, other members of the ANZ Group and associates.

These transactions principally consist of funding and hedging transactions, the provision of other financial and investment services, technology and process support, and compensation for share based payments made to ANZ New Zealand employees. These transactions are conducted on an arm's length basis and on normal commercial terms.

Transactions	2023 NZ\$m	2022 NZ\$m
Immediate Parent Company		
Interest expense	51	34
Dividends paid	1,345	1,880
Ultimate Parent Bank and other ANZ Group subsidiaries		
Interest income	12	5
Interest expense	145	73
Other operating income	9	8
Operating expenses	63	107
Associates		
Operating expenses	3	3
Share of associates' loss	-	1

Outstanding balances	2023 NZ\$m	2022 NZ\$m
Ultimate Parent Bank and other ANZ Group subsidiaries		
Cash and cash equivalents	177	36
Collateral paid	-	268
Derivative financial instruments	5,506	8,553
Other assets	50	76
Investments in associates	-	5
Total due from related parties	5,733	8,938
Immediate Parent Company		
Deposits and other borrowings	1,766	1,766
Payables and other liabilities	27	18
Ultimate Parent Bank and other ANZ Group subsidiaries		
Settlement balances payable	7	887
Collateral received	547	-
Deposits and other borrowings	1,088	1,150
Derivative financial instruments	4,955	8,723
Payables and other liabilities	33	42
Debt issuances	286	303
Associates		
Deposits and other borrowings	1	1
Total due to related parties	8,710	12,890

Balances due from / to other members of the ANZ Group and associates are unsecured. The Bank has provided guarantees and commitments to, and received guarantees from, these entities as follows:

	2023 NZ\$m	2022 NZ\$m
Financial guarantees provided by the Ultimate Parent Bank and other ANZ Group subsidiaries	227	262
Financial guarantees provided to the Ultimate Parent Bank and other ANZ Group subsidiaries	69	89
Undrawn facilities provided to associates	1	1

27. COMMITMENTS AND CONTINGENT LIABILITIES

CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	2023 NZ\$m	2022 NZ\$m
Contract amount of:		
Undrawn facilities	26,055	27,060
Guarantees and letters of credit	1,029	1,225
Performance related contingencies	1,520	1,699
Total	28,604	29,984

UNDRAWN FACILITIES

The majority of undrawn facilities are subject to customers maintaining specific credit and other requirements or conditions. Many of these facilities are expected to be only partially used, and others may never be used at all. As such, the total of the nominal principal amounts is not necessarily representative of future liquidity risks or future cash requirements. Based on the earliest date on which ANZ New Zealand may be required to pay, the full amount of undrawn facilities mature within 12 months.

GUARANTEES, LETTERS OF CREDIT AND PERFORMANCE RELATED CONTINGENCIES

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

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

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

To reflect the risk associated with these transactions, we apply the same credit origination, portfolio management and collateral requirements that we apply to loans. The contract amount represents the maximum potential amount that we could lose if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Based on the earliest date on which ANZ New Zealand may be required to pay, the full amount of guarantees and letters of credit and performance related contingencies mature within 12 months.

NOTES TO THE FINANCIAL STATEMENTS

27. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

OTHER CONTINGENT LIABILITIES

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

REGULATORY AND CUSTOMER EXPOSURES

ANZ New Zealand regularly engages with its regulators in relation to regulatory investigations, surveillance and reviews, reportable situations, civil enforcement actions (whether by court action or otherwise), formal and informal inquiries and regulatory supervisory activities both in New Zealand and globally. ANZ New Zealand has received various notices and requests for information from its regulators as part of both industry-wide and ANZ New Zealand-specific reviews, and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, may include a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation, wealth advice, insurance distribution, pricing, competition, conduct in financial markets and financial transactions, capital market transactions, anti-money laundering and counter-terrorism financing obligations, privacy obligations and information security, business continuity management, reporting and disclosure obligations and product disclosure documentation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

LOAN INFORMATION LITIGATION

In September 2021, a representative proceeding was brought against the Bank, alleging breaches of disclosure requirements under consumer credit legislation in respect of variation letters sent to certain loan customers. The Bank is defending the allegations. The proceeding is still at an early stage. The High Court has ruled that the plaintiffs may bring the proceeding as an opt-out representative action on behalf of a class, being customers who entered into a home loan or personal loan with the Bank between 6 June 2015 and 28 May 2016 and requested a variation to that loan during that period. Aspects of the decision are being appealed by both parties.

WARRANTIES AND INDEMNITIES

ANZ New Zealand has provided warranties, indemnities and other commitments in favour of the purchaser in connection with various disposals of businesses and assets and other transactions, covering a range of matters and risks. It is exposed to potential claims under those warranties, indemnities and commitments, some of which are currently active. The outcomes and total costs associated with these exposures remain uncertain.

28. AUDITOR FEES

	2023 NZ\$000	2022 NZ\$000
KPMG New Zealand		
Audit or review of financial statements ¹	2,204	2,130
Audit related services:		
Prudential and regulatory services ²	295	196
Offer documents assurance or review	141	130
Other assurance services ³	399	40
Total audit related services	835	366
Total KPMG New Zealand fees relating to ANZ New Zealand	3,039	2,496
Fees related to certain managed funds not recharged ⁴	280	262
Total KPMG New Zealand fees	3,319	2,758
KPMG Australia		
Other assurance services - operational greenhouse gas emissions	53	-
Total auditor fees	3,372	2,758

¹ Includes fees for both the audit of annual financial statements and reviews of interim financial statements.

² Includes fees for reviews and controls reports required by regulations.

³ Includes fees for other reviews and agreed upon procedures engagements.

⁴ Amounts relate to the ANZ PIE Fund, ANZ Investments Private Scheme and SIL Mutual Funds, and include fees for audits of annual financial statements, registry audits, supervisor reporting and other agreed upon procedures engagements.

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

ASSURANCE REPORT



INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF ANZ GROUP HOLDINGS LIMITED

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the accompanying consolidated financial statements of the New Zealand business of ANZ Group Holdings Limited (ANZGHL) and its subsidiaries (ANZ New Zealand) on pages 4 to 67 which comprise:

- the consolidated balance sheet as at 30 September 2023;
- the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements:

- present fairly in all material respects ANZ New Zealand's financial position as at 30 September 2023 and its financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of ANZ New Zealand in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for *Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

EMPHASIS OF MATTER

We draw attention to Note 1 in the consolidated financial statements which explains the restructure on 3 January 2023 when ANZGHL acquired the New Zealand business of Australia and New Zealand Banking Group Limited (ANZBGL). As common control remained after the restructure, the consolidated financial statements have been prepared as if ANZGHL had operated for the entire period. Comparative figures shown are for the consolidated ANZBGL. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the directors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

ALLOWANCE FOR EXPECTED CREDIT LOSSES (\$857 MILLION)

Refer to the critical accounting estimates, judgements and disclosures in relation to the allowance for expected credit losses in Note 12 to the Consolidated Financial Statements.

The key audit matter

Allowance for expected credit losses is a key audit matter due to the significance of the loans and advances balance to the consolidated financial statements and the inherent complexity of ANZ New Zealand's Expected Credit Loss (ECL) models used to measure ECL allowances. These models are reliant on data and a number of estimates including impacts of multiple economic scenarios, and other assumptions such as defining a Significant Increase in Credit Risk (SICR).

NZ IFRS 9 requires ANZ New Zealand to measure ECL on a forward-looking basis reflecting a range of future economic conditions, of which GDP and unemployment levels are considered key assumptions. Post-model adjustments to the ECL results are also made by ANZ New Zealand to address

known ECL model limitations or emerging trends in the loan portfolios. We exercise significant judgement in challenging both the economic scenarios used and the judgemental post-model adjustments that ANZ New Zealand applies to the ECL results.

There is additional subjectivity and judgement in ANZ New Zealand's measurement of ECL due to the heightened uncertainty associated with the impact of the economic outlook on ANZ New Zealand's customers, increasing our audit effort thereon.

ANZ New Zealand's criteria selected to identify a SICR, such as a decrease in customer credit rating (CCR), are key areas of judgement within ANZ New Zealand's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.

Additionally, the determination of an allowance for individually assessed impairment on Business and Institutional (wholesale) loans requires significant judgement in estimating the expected future cash repayments and proceeds from the value of the collateral held in respect of the loans.

How the matter was addressed in our audit

Our audit procedures for the allowance for ECL and disclosures included assessing ANZ New Zealand's significant accounting policies against the requirements of the accounting standard. KPMG Financial Risk Management and Economic specialists were used in ECL audit procedures as a core part of our audit team.

We tested key controls in relation to:

- ANZ New Zealand's ECL model governance and validation processes which involved assessment of model performance;
- ANZ New Zealand's assessment and approval of the forward-looking macroeconomic assumptions and scenario weightings through challenge applied by ANZ New Zealand's internal governance processes;
- Reconciliation of the data used in the ECL calculation process to gross balances recorded within the general ledger as well as source systems;
- Counterparty risk grading for wholesale loans (larger customer exposures are monitored individually). We tested the approval of new lending facilities against ANZ New Zealand's lending policies, and controls over the monitoring of counterparty credit quality; and
- IT system controls which record retail loans lending arrears, group exposures into delinquency buckets and recalculate individual allowances. We tested automated calculation and change management controls and evaluated the oversight of the portfolios, with a focus on controls over delinquency monitoring.

We tested relevant General Information Technology Controls over the key IT applications used by ANZ New Zealand in measuring ECL allowances, as detailed in the IT Systems and Controls key audit matter below.

In addition to controls testing, our procedures included:

- Re-performing credit assessments for a sample of wholesale loans controlled by ANZ New Zealand's specialist workout and recovery team, who assessed these as higher risk or impaired, and a sample of other loans, focusing on larger exposures assessed by ANZ New Zealand as showing signs of deterioration, or in areas of emerging risk (assessed against external market).
- For each loan sampled, we challenged ANZ New Zealand's CCR and Security Indicator, assessment of loan recoverability, valuation of security and the impact on the credit allowance. To do this, we reviewed the information on ANZ New Zealand's loan file, understood the facts and circumstances of the case with the relationship manager, and performed our own assessment of recoverability.
- Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment, and comparing data and assumptions used by ANZ New Zealand in recoverability assessments to externally sourced evidence, such as commodity prices and external property sale information. Where relevant, we assessed the forecast timing of future cash flows in the context of underlying valuations and approved business plans and challenged key assumptions in the valuations;
- Obtaining an understanding of ANZ New Zealand's processes to determine ECL allowances, evaluating ANZ New Zealand's ECL model methodologies against established market practices and criteria in the accounting standards;
- Working with our KPMG Financial Risk Management specialists, we assessed the accuracy of ANZ New Zealand's ECL model estimates by re-performing, for a sample of loans, the ECL allowance using our independently driven calculation tools and comparing this to the amount recorded by ANZ New Zealand;
- Working with our KPMG Economic specialists, we challenged ANZ New Zealand's forward-looking macroeconomic assumptions and scenarios incorporated in ANZ New Zealand's ECL models. We compared ANZ New Zealand's forecast GDP and unemployment rates, to relevant publicly available macro-economic information, and considered other known variables and information obtained through our other audit procedures to identify contradictory indicators;
- Testing the implementation of ANZ New Zealand's SICR methodology by re-performing the staging calculation for a sample of loans taking into consideration movements in the CCR from loan origination and comparing our expectation to actual staging applied on an individual account level in ANZ New Zealand's ECL model; and
- Assessing the accuracy of the data used in the ECL models by confirming a sample of data fields such as account balance and CCR to relevant source systems.

We also challenged key assumptions in the components of ANZ New Zealand's post-model adjustments. This included:

- Assessing the requirement for post-model adjustments considering ANZ New Zealand's ECL model and data deficiencies identified by ANZ New Zealand's ECL model validation processes, particularly in light of the extreme volatility in economic scenarios;
- Comparing underlying data used in concentration risk and economic cycle allowances to underlying loan portfolio characteristics of recent loss experience, current market conditions and specific risks inherent in ANZ New Zealand's loan portfolios;
- Assessing certain post-model adjustments identified against internal and external information; and
- Assessing the completeness of post-model adjustments by checking the consistency of risks we identified in the portfolios against ANZ New Zealand's assessment.

We assessed the appropriateness of ANZ New Zealand's disclosures in the consolidated financial statements using our understanding obtained from our testing and against the requirements of NZ IFRS.

ASSURANCE REPORT

VALUATION OF FINANCIAL INSTRUMENTS

Fair value of Level 2 financial instruments in asset positions \$14,470 million

Fair value of Level 2 financial instruments in liability positions \$11,161 million

Refer to the critical accounting estimates, judgements and disclosures of fair values in Note 16 to the Consolidated Financial Statements.

The key audit matter

The fair value of ANZ New Zealand's Level 2 financial instruments is determined by ANZ New Zealand through the application of valuation techniques which often involve the exercise of judgement and the use of assumption and estimates.

The valuation of Level 2 financial instruments held at fair value is a key audit matter due to the complexity associated with the valuation methodology and models of certain more complex Level 2 financial instruments including fair value adjustments (FVAs) leading to an increase in subjectivity and estimation uncertainty. Level 2 financial instruments represent 55% of ANZ New Zealand's financial assets carried at fair value and 97% of ANZ New Zealand's financial liabilities carried at fair value.

How the matter was addressed in our audit

Our audit procedures for the valuation of financial instruments held at fair value included:

Performing an assessment of the population of financial instruments held at fair value to identify portfolios that have a higher risk of misstatement arising from significant judgment over valuation either due to unobservable inputs or complex models.

We tested the design and operating effectiveness of key controls relating specifically to these financial instruments, including:

- Independent Price Verification (IPV), including completeness of portfolios and valuation inputs subject to IPV;
- model validation at inception and periodically, including assessment of model limitation and assumptions;
- review and challenge of daily profit and loss by a control function;
- collateral management process, including review of margin reconciliations with clearing houses; and
- review and approval of FVAs, including exit price and portfolio level adjustments.

In relation to the valuation of Level 2 financial instruments, with the assistance of KPMG valuation specialists:

- Assessing the reasonableness of key inputs and assumptions using comparable data in the market and available alternatives;
- Comparing ANZ New Zealand's valuation methodology to industry practice and the criteria in the accounting standards; and
- Independently revaluing a selection of financial instruments and FVAs. This involved sourcing independent inputs from comparable data in the market and available alternatives. We challenged and assessed any differences.

We assessed ANZ New Zealand's consolidated financial statement disclosures, including key judgements and assumptions using our understanding obtained from our testing and against NZ IFRS.

IT SYSTEMS AND CONTROLS

The key audit matter

As a major New Zealand bank, ANZ New Zealand's businesses utilise a large number of complex, interdependent Information Technology (IT) systems to process and record a high volume of transactions. Controls over access and changes to IT systems are critical to the recording of financial information and the preparation of a financial report which provides a true and fair view of ANZ New Zealand's financial position and performance.

The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of ANZ New Zealand's IT controls.

How the matter was addressed in our audit

We tested the control environment for key IT applications used in processing significant transactions and recording balances in the general ledger. We also tested automated controls embedded within these systems which support the effective operation of technology-enabled business processes. KPMG IT specialists were used throughout the engagement as a core part of our audit team.

Our audit procedures included:

- Assessing the governance and higher-level controls in place across the IT environment, including the approach to ANZ New Zealand policy design, review and awareness;
- Design and operating effectiveness testing of controls across the User Access Management Lifecycle, including how users are on-boarded, reviewed, and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each IT application and the supporting infrastructure;
- Design and operating effectiveness testing of controls in place over change management, including how changes are initiated, documented, approved, tested and authorised prior to migration into the production environment of critical IT applications. We also assessed the appropriateness of users with access to make changes to IT applications across ANZ New Zealand;
- Design and operating effectiveness testing of controls used by ANZ New Zealand's technology teams to schedule system jobs and monitor system integrity;
- Design and operating effectiveness testing of controls related to significant IT application programs per the ANZ Delivery Framework; and
- Design and operating effectiveness testing of automated business process controls including those that enforce segregation of duties between conflicting roles within IT applications, configurations in place to perform calculations, mappings, and flagging of financial transactions, automated reconciliation controls (both between systems, and intra-system) and data integrity of critical system reporting used by us in our audit to select samples and analysis data used by management to generate financial reporting.

CARRYING VALUE OF GOODWILL (\$3,006 MILLION)

Refer to the critical accounting estimates, judgements and disclosures in Note 19 to the Consolidated Financial Statements.

The key audit matter

Carrying value of goodwill is a key audit matter where there are a number of judgements required in the determination of the recoverable amount of goodwill, and where the carrying value of goodwill is financially significant at the reporting date.

ANZ New Zealand uses a value-in-use (VIU) approach to estimate the recoverable amount of each Cash Generating Unit (CGU) to which goodwill is allocated. The reasonableness of the recoverable amounts was assessed using an implied market-multiples approach.

The ongoing effects and uncertainties associated with the environment continue to increase the potential for impairment and our audit effort in this area remains elevated. There is increased judgement in forecasting cash flows and assumptions used in the discounted cash flow models and market-multiples used in the reasonableness assessment.

We focused on the significant forward-looking assumptions ANZ New Zealand applied as part of its annual impairment test as at 28 February 2023, including:

- Revenue growth rates, and terminal growth rates in the VIU model. Available headroom for some CGUs is sensitive to small changes in these assumptions, reducing available headroom or indicating possible impairment. This drives additional audit effort specific to their feasibility and consistency of application to ANZ New Zealand's strategy; and
- Discount rates in the VIU model and the control premium in the market-multiples reasonableness assessment. These are complicated in nature and vary according to the conditions and environment the specific CGU is subject to from time to time.

How the matter was addressed in our audit

We involved valuation specialists to supplement our senior team members in assessing this key audit matter.

Working with our valuation specialists, our procedures included:

- In accordance with accounting standards, assessing the reasonableness of the amounts allocated to the CGUs to which ANZ New Zealand allocated goodwill;
- Considering the appropriateness of the valuation method applied by ANZ New Zealand to perform their annual test for impairment against the requirements of the accounting standards;
- Assessing the integrity of the VIU model used by ANZ New Zealand, including the accuracy of the underlying calculation formulae;
- Assessing the accuracy of previous Banking Group forecasts to inform our evaluation of forecasts incorporated in the VIU model;
- For each CGU, assessing ANZ New Zealand's key assumptions used in the VIU model, including discount rates, revenue growth rates, and terminal growth rates by comparing to external observable metrics, historical experience, our knowledge of the markets and current market practice;
- Stress testing key VIU assumptions to consider reasonably possible alternatives;
- Comparing the forecast cash flows contained in the model to the revised Operational forecast, reflecting higher interest rate environment and the increased regulatory minimum capital requirements;
- Assessing key assumptions used in the market-multiples reasonableness assessment, which we assessed as being equivalent to a fair value less costs of disposal approach. These assumptions included future maintainable earnings, the control premium comparing the implied multiples from comparable market transactions to the implied multiples used in the VIU model;
- Determining whether there is sufficient appropriate evidence to support ANZ New Zealand's conclusion that there is no impairment in goodwill associated with any CGU;
- Assessing the reasonableness of ANZ New Zealand's review for potential internal and external indicators of impairment. This review considered the period from the annual impairment test as at 28 February 2023 up to financial year end; and
- Assessing the disclosures in the financial statements against the requirements of the accounting standards.

USE OF THIS INDEPENDENT AUDITOR'S REPORT

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

ASSURANCE REPORT

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors, on behalf of ANZ New Zealand, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance NZ IFRS and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (the XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Jamie Munro.

For and on behalf of



KPMG
Auckland

10 November 2023

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