

# **ANZ Bank New Zealand Limited Disclosure Statement**

**FOR THE THREE MONTHS ENDED 31 DECEMBER 2013 | NUMBER 72 ISSUED FEBRUARY 2014**

## **Disclosure Statement**

**For the three months ended 31 December 2013**

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### **Glossary of Terms**

In this Disclosure Statement unless the context otherwise requires:

- (a) "Bank" means ANZ Bank New Zealand Limited;
- (b) "Banking Group" means the Bank and all its controlled entities;
- (c) "Immediate Parent Company" means ANZ Holdings (New Zealand) Limited;
- (d) "Ultimate Parent Bank" means Australia and New Zealand Banking Group Limited;
- (e) "Overseas Banking Group" means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities;
- (f) "New Zealand business" means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand;
- (g) "NZ Branch" means the New Zealand business of the Ultimate Parent Bank;
- (h) "ANZ New Zealand" means the New Zealand business of the Overseas Banking Group;
- (i) "Registered Office" is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service;
- (j) "RBNZ" means the Reserve Bank of New Zealand;
- (k) "APRA" means the Australian Prudential Regulation Authority;
- (l) "the Order" means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013; and
- (m) Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

## General Disclosures

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

### Credit Rating Information

The Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars.

The Bank's credit ratings are:

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

### Guarantors

No obligations of the Bank are guaranteed as at 14 February 2014.

#### ANZNZ Covered Bond Trust

Certain debt securities ("Covered Bonds") issued by the Bank's wholly owned subsidiary, ANZ New Zealand (Int'l) Limited, are guaranteed by ANZNZ Covered Bond Trust Limited (the "Covered Bond Guarantor"), solely in its capacity as trustee of ANZNZ Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 31 December 2013 of \$4,041 million, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 35, 48 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in Note 7.

### Changes to conditions of registration

The conditions of registration applying to the Bank were amended effective 1 October 2013 to update cross-references to updated versions of RBNZ documents and to add conditions 21 to 25 which restrict high loan-to-valuation residential mortgage lending.

### Directorate

Nigel Williams was appointed as an alternate director for Michael Smith on 8 January 2014. Mr Williams is the Chief Risk Officer of the Ultimate Parent Bank.

### Auditor

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

## Income Statement

\$ millions	Note	Unaudited 3 months to 31/12/2013	Unaudited 3 months to 31/12/2012	Audited Year to 30/09/2013
Interest income		1,501	1,512	5,957
Interest expense		820	861	3,344
Net interest income		681	651	2,613
Net trading gains		64	38	163
Net funds management and insurance income		68	66	234
Other operating income	2	90	93	419
Share of associates' profit		1	3	7
Operating income		904	851	3,436
Operating expenses		372	398	1,512
Profit before provision for credit impairment and income tax		532	453	1,924
Provision for credit impairment	5	(21)	42	63
<b>Profit before income tax</b>		<b>553</b>	<b>411</b>	<b>1,861</b>
Income tax expense		153	111	490
<b>Profit after income tax</b>		<b>400</b>	<b>300</b>	<b>1,371</b>

## Statement of Comprehensive Income

\$ millions	Unaudited 3 months to 31/12/2013	Unaudited 3 months to 31/12/2012	Audited Year to 30/09/2013
<b>Profit after income tax</b>	<b>400</b>	<b>300</b>	<b>1,371</b>
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial gain on defined benefit schemes	-	-	71
Income tax credit / (expense) relating to items not reclassified	-	-	(20)
Total items that will not be reclassified to profit or loss	-	-	51
<b>Items that may be reclassified subsequently to profit or loss</b>			
Unrealised losses recognised directly in equity	(19)	(11)	(138)
Realised gains transferred to income statement	(11)	(6)	(21)
Income tax credit relating to items that may be reclassified	8	5	45
Total items that may be reclassified subsequently to profit or loss	(22)	(12)	(114)
<b>Total comprehensive income for the period</b>	<b>378</b>	<b>288</b>	<b>1,308</b>

## Statement of Changes in Equity

\$ millions	Share capital	Available- for-sale revaluation reserve	Cash flow hedging reserve	Retained earnings	Total equity
As at 1 October 2012 (Audited)	6,943	(3)	141	3,851	10,932
Restatement (Note 1)	-	-	-	(21)	(21)
<b>As at 1 October 2012 (Restated)</b>	<b>6,943</b>	<b>(3)</b>	<b>141</b>	<b>3,830</b>	<b>10,911</b>
Profit after income tax	-	-	-	300	300
Unrealised gains / (losses) recognised directly in equity	-	1	(12)	-	(11)
Realised gains transferred to the income statement	-	-	(6)	-	(6)
Income tax credit on items recognised directly in equity	-	-	5	-	5
Total comprehensive income for the period	-	1	(13)	300	288
<b>As at 31 December 2012 (Unaudited)</b>	<b>6,943</b>	<b>(2)</b>	<b>128</b>	<b>4,130</b>	<b>11,199</b>
As at 1 October 2012 (Audited)	6,943	(3)	141	3,851	10,932
Restatement (Note 1)	-	-	-	(21)	(21)
<b>As at 1 October 2012 (Restated)</b>	<b>6,943</b>	<b>(3)</b>	<b>141</b>	<b>3,830</b>	<b>10,911</b>
Profit after income tax	-	-	-	1,371	1,371
Unrealised gains / (losses) recognised directly in equity	-	1	(139)	-	(138)
Realised gains transferred to the income statement	-	-	(21)	-	(21)
Actuarial gain on defined benefit schemes	-	-	-	71	71
Income tax credit / (expense) on items recognised directly in equity	-	-	45	(20)	25
Total comprehensive income for the period	-	1	(115)	1,422	1,308
Ordinary dividend paid	-	-	-	(1,065)	(1,065)
Preference shares issued	300	-	-	-	300
<b>As at 30 September 2013 (Audited)</b>	<b>7,243</b>	<b>(2)</b>	<b>26</b>	<b>4,187</b>	<b>11,454</b>
Profit after income tax	-	-	-	400	400
Unrealised gains / (losses) recognised directly in equity	-	3	(22)	-	(19)
Realised gains transferred to the income statement	-	-	(11)	-	(11)
Income tax credit / (expense) on items recognised directly in equity	-	(1)	9	-	8
Total comprehensive income for the period	-	2	(24)	400	378
<b>As at 31 December 2013 (Unaudited)</b>	<b>7,243</b>	<b>-</b>	<b>2</b>	<b>4,587</b>	<b>11,832</b>

## Balance Sheet

\$ millions	Note	Unaudited 31/12/2013	Unaudited 31/12/2012	Audited 30/09/2013
<b>Assets</b>				
Liquid assets		3,249	3,148	2,496
Due from other financial institutions		1,699	3,126	1,570
Trading securities		11,498	11,638	10,320
Derivative financial instruments		7,699	10,720	9,518
Available-for-sale assets		1,115	47	782
Net loans and advances	4	91,219	88,228	90,489
Investments backing insurance policy liabilities		180	154	172
Insurance policy assets		408	416	399
Investments in associates		89	98	98
Other assets		611	594	731
Deferred tax assets		20	92	45
Premises and equipment		377	331	376
Goodwill and other intangible assets		3,446	3,506	3,448
<b>Total assets</b>		<b>121,610</b>	122,098	120,444
Interest earning and discount bearing assets		<b>108,686</b>	105,655	105,866
<b>Liabilities</b>				
Due to other financial institutions		2,315	2,419	1,517
Deposits and other borrowings	8	81,074	77,080	77,697
Due to Immediate Parent Company		31	622	939
Derivative financial instruments		7,837	11,566	10,243
Payables and other liabilities		1,755	1,796	1,724
Current tax liabilities		33	3	3
Provisions		218	308	229
Bonds and notes		15,381	15,935	15,494
Loan capital		1,134	1,170	1,144
<b>Total liabilities</b>		<b>109,778</b>	110,899	108,990
<b>Net assets</b>		<b>11,832</b>	11,199	11,454
<b>Represented by:</b>				
Share capital		7,243	6,943	7,243
Reserves		2	126	24
Retained earnings		4,587	4,130	4,187
<b>Total equity</b>		<b>11,832</b>	11,199	11,454
Interest and discount bearing liabilities		<b>93,757</b>	91,330	91,061

## Condensed Cash Flow Statement

\$ millions	<b>Unaudited 3 months to 31/12/2013</b>	Unaudited 3 months to 31/12/2012	Audited Year to 30/09/2013
<b>Cash flows from operating activities</b>			
Interest received	<b>1,469</b>	1,493	5,916
Interest paid	<b>(826)</b>	(849)	(3,368)
Other cash inflows provided by operating activities	<b>216</b>	237	877
Other cash outflows used in operating activities	<b>(517)</b>	(556)	(1,940)
Cash flows from operating profits before changes in operating assets and liabilities	<b>342</b>	325	1,485
Net changes in operating assets and liabilities	<b>2,251</b>	3,341	1,192
<b>Net cash flows provided by operating activities</b>	<b>2,593</b>	3,666	2,677
<b>Cash flows from investing activities</b>			
Cash inflows provided by investing activities	<b>10</b>	1	69
Cash outflows used in investing activities	<b>(21)</b>	(30)	(142)
<b>Net cash flows used in investing activities</b>	<b>(11)</b>	(29)	(73)
<b>Cash flows from financing activities</b>			
Cash inflows provided by financing activities	<b>1,179</b>	-	2,678
Cash outflows used in financing activities	<b>(2,582)</b>	(1,965)	(5,676)
<b>Net cash flows used in financing activities</b>	<b>(1,403)</b>	(1,965)	(2,998)
Net increase / (decrease) in cash and cash equivalents	<b>1,179</b>	1,672	(394)
Cash and cash equivalents at beginning of the period	<b>2,861</b>	3,255	3,255
<b>Cash and cash equivalents at end of the period</b>	<b>4,040</b>	4,927	2,861

## Notes to the Financial Statements

### 1. Significant Accounting Policies

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

These interim financial statements are for the Banking Group for the three months ended 31 December 2013. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice as appropriate for profit oriented entities, the requirements of NZ IAS 34 *Interim Financial Reporting*, IAS 34 *Interim Financial Reporting* and the Order, and should be read in conjunction with the Banking Group's financial statements for the year ended 30 September 2013.

#### (ii) Basis of measurement

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

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

#### (iii) Changes in accounting policies

The Banking Group has applied the following new accounting standards and amendments in the preparation of these interim financial statements:

- NZ IFRS 10 *Consolidated Financial Statements*;
- NZ IFRS 13 *Fair Value Measurement*;
- NZ IAS 19 *Employee Benefits* (amended 2011);
- NZ IAS 28 *Investments in Associates and Joint Ventures* (amended 2011); and
- NZ IAS 34 *Interim Financial Reporting* (consequential amendments).

Adoption of these standards has not resulted in any material change to the Banking Group's reported result or financial position.

NZ IAS 19 has been applied retrospectively, in accordance with transitional provisions, with the net impact of initial application recognised in retained earnings as at 30 September 2012 and shown in the statement of changes in equity. The balances of payables and other liabilities and the associated deferred tax asset have been restated for subsequent periods.

Amendments to NZ IAS 34 require certain fair value disclosures which have been included in Note 13, however comparative information is not required in the first year of application.

#### (iv) Presentation currency and rounding

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

#### (v) Comparatives

In addition to restatements resulting from the initial application of NZ IAS 19, certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation.

#### (vi) Principles of consolidation

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

### 2. Other Operating Income

Other operating income includes a fair value loss of \$7 million (31/12/2012 \$21 million; 30/09/2013 \$35 million) on hedging activities and the revaluation of financial liabilities designated at fair value. Other operating income excluding these fair value adjustments is \$97 million (31/12/2012 \$114 million; 30/09/2013 \$454 million).



## Notes to the Financial Statements

### 3. Segmental Analysis

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

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

#### Retail

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

#### Commercial

Commercial provides services to Business Banking, Commercial & Agri, and UDC customers. Business Banking services are offered to small enterprises

(typically with annual revenues of less than \$5 million). Commercial & Agri customers consist of primarily privately owned medium to large enterprises. The Banking Group's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is principally involved in the financing and leasing of plant, vehicles and equipment, mainly for small and medium sized businesses, as well as investment products.

#### Wealth

Wealth includes private banking and investment services provided to high net worth individuals, the ANZ wealth management and OnePath insurance businesses, and other investment products.

#### Institutional

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

#### Other

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

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

\$ millions	Retail	Commercial	Wealth	Institutional	Other <sup>2</sup>	Total
<b>Unaudited 3 months to 31/12/2013</b>						
External operating income	264	681	23	215	(279)	904
Intersegment operating income	46	(320)	38	(41)	277	-
Total operating income	310	361	61	174	(2)	904
Profit before income tax	149	252	27	134	(9)	553
<b>Unaudited 3 months to 31/12/2012</b>						
External operating income	244	670	17	223	(303)	851
Intersegment operating income	35	(315)	37	(67)	310	-
Total operating income	279	355	54	156	7	851
Profit before income tax	102	203	20	98	(12)	411
<b>Audited year to 30/09/2013</b>						
External operating income	997	2,676	45	818	(1,100)	3,436
Intersegment operating income	175	(1,248)	148	(211)	1,136	-
Total operating income	1,172	1,428	193	607	36	3,436
Profit before income tax	465	953	59	388	(4)	1,861

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

<sup>2</sup> This segment has negative external operating income as this segment incurs funding costs on behalf of the Banking Group and is reimbursed internally.

## Notes to the Financial Statements

### 4. Net Loans and Advances

\$ millions	Note	Unaudited 31/12/2013	Unaudited 31/12/2012	Audited 30/09/2013
Overdrafts		1,496	1,789	1,841
Credit card outstandings		1,541	1,455	1,458
Term loans - housing		49,819	47,602	49,563
Term loans - non-housing		38,519	37,835	37,832
Finance lease receivables		868	816	849
Gross loans and advances		<b>92,243</b>	89,497	91,543
Provision for credit impairment	5	<b>(776)</b>	(1,056)	(826)
Unearned finance income		<b>(287)</b>	(263)	(278)
Fair value hedge adjustment		<b>(63)</b>	(7)	(42)
Deferred fee revenue and expenses		<b>(66)</b>	(62)	(64)
Capitalised brokerage/mortgage origination fees		<b>168</b>	119	156
Total net loans and advances		<b>91,219</b>	88,228	90,489

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of \$9,958 million as at 31 December 2013 (31/12/2012 \$8,576 million, 30/09/2013 \$9,256 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

### 5. Provision for Credit Impairment

\$ millions	Retail mortgages	Other retail exposures	Non retail exposures	Total
<b>Unaudited 31/12/2013</b>				
Collective provision	100	110	306	516
Individual provision	66	22	172	260
Total provision for credit impairment	<b>166</b>	<b>132</b>	<b>478</b>	<b>776</b>
Collective provision credit	(1)	(7)	(18)	(26)
Individual provision charge / (credit)	(9)	24	(10)	5
Total charge / (credit) in income statement	<b>(10)</b>	<b>17</b>	<b>(28)</b>	<b>(21)</b>
<b>Unaudited 31/12/2012</b>				
Collective provision	112	118	375	605
Individual provision	104	31	316	451
Total provision for credit impairment	216	149	691	1,056
Collective provision charge / (credit)	8	(7)	-	1
Individual provision charge	3	11	27	41
Total charge in income statement	11	4	27	42
<b>Audited 30/09/2013</b>				
Collective provision	101	117	324	542
Individual provision	74	22	188	284
Total provision for credit impairment	175	139	512	826
Collective provision credit	(3)	(8)	(51)	(62)
Individual provision charge	10	67	48	125
Total charge / (credit) in income statement	7	59	(3)	63

## Notes to the Financial Statements

### 6. Impaired and Past Due Assets

\$ millions	Retail mortgages	Other retail exposures	Non retail exposures	Total
<b>Unaudited 31/12/2013</b>				
Total impaired assets	163	49	599	811
Loans that are at least 90 days past due but not impaired	89	37	65	191
<b>Unaudited 31/12/2012</b>				
Total impaired assets	302	48	923	1,273
Loans that are at least 90 days past due but not impaired	105	38	64	207
<b>Audited 30/09/2013</b>				
Total impaired assets	179	49	666	894
Loans that are at least 90 days past due but not impaired	92	40	76	208

### 7. Financial Assets Pledged as Collateral

\$ millions	Unaudited 31/12/2013	Unaudited 31/12/2012	Audited 30/09/2013
Cash collateral given on derivative financial instruments	623	1,076	1,002
Trading securities encumbered through repurchase agreements	748	787	108
Residential mortgages pledged as security for covered bonds	6,364	4,896	5,857
Total assets of UDC Finance Limited pledged as collateral for secured stock	2,266	2,139	2,162
Total financial assets pledged as collateral	10,001	8,898	9,129

#### ANZNZ Covered Bond Trust ("the Covered Bond Trust")

Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

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

### 8. Deposits and Other Borrowings

\$ millions	Note	Unaudited 31/12/2013	Unaudited 31/12/2012	Audited 30/09/2013
Certificates of deposit		1,594	2,369	2,364
Term deposits		34,254	33,545	33,862
Demand deposits bearing interest		30,949	27,629	29,688
Deposits not bearing interest		6,135	5,737	5,526
Secured debenture stock	7	1,575	1,457	1,492
Commercial paper		6,567	6,343	4,765
Total deposits and other borrowings		81,074	77,080	77,697

### 9. Related Party Transactions

\$ millions	Unaudited 31/12/2013	Unaudited 31/12/2012	Audited 30/09/2013
Total due from related parties	1,680	2,332	2,193
Total due to related parties	4,538	5,785	5,132

## Notes to the Financial Statements

### 10. Capital Adequacy

#### Adoption of Basel III capital framework

Effective 1 January 2013, RBNZ has adopted the majority of Basel III capital reforms in New Zealand. The Basel III reforms include: increased capital deductions from common equity tier one capital, an increase in capitalisation rates (including prescribed minimum capital buffers, fully effective 1 January 2014), tighter requirements around new tier one and tier two securities and transitional arrangements for existing tier one and tier two securities that do not conform to the new regulations. Other changes include capital requirements for counterparty credit risk and an increase in the asset value correlation with respect to exposures to large and unregulated financial institutions.

#### Capital ratios of the Banking Group under the internal models based approach (unaudited)

	31/12/2013 Basel III	31/12/2012 Basel II	30/09/2013 Basel III
Common equity tier one capital	10.7%	n/a	10.4%
Tier one capital	11.1%	11.2%	10.8%
Total capital	12.7%	12.8%	12.4%
Buffer ratio	4.7%	n/a	4.4%
<b>RBNZ minimum ratios:</b>			
Common equity tier one capital	4.5%	n/a	4.5%
Tier one capital	6.0%	4.0%	6.0%
Total capital	8.0%	8.0%	8.0%

#### Capital of the Banking Group

	Unaudited 31/12/2013
\$ millions	
Common equity tier one capital before deductions	11,532
Less deductions from common equity tier one capital	(3,695)
Common equity tier one capital	7,837
Additional tier one capital - preference shares	300
Total tier one capital	8,137
Tier two capital	1,123
Total capital	9,260

#### Capital requirements of the Banking Group (unaudited)

	Exposure at default	Risk weighted exposure or implied risk weighted exposure <sup>1</sup>	Total capital requirement
\$ millions			
Corporate exposures	43,998	26,154	2,092
Sovereign exposures	10,511	117	9
Bank exposures	8,256	2,498	200
Retail mortgage exposures	54,250	15,646	1,252
Other retail exposures	9,533	7,752	620
Exposures subject to internal ratings based approach	126,548	52,167	4,173
Specialised lending exposures subject to slotting approach	8,215	8,116	649
Exposures subject to standardised approach	1,598	292	23
Equity exposures	91	386	31
Other exposures	3,411	1,448	116
<b>Total credit risk</b>	<b>139,863</b>	<b>62,409</b>	<b>4,992</b>
Operational risk	n/a	5,430	434
Market risk	n/a	5,199	416
<b>Total</b>	<b>139,863</b>	<b>73,038</b>	<b>5,842</b>

<sup>1</sup> Total credit risk weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

## Notes to the Financial Statements

### Tier two capital instruments

The amount of the tier two loan capital instruments eligible to be included in regulatory capital will reduce by 20% per year from 1 January 2014 and will not be included in regulatory capital from 1 January 2018.

### Pillar II capital for other material risks

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

Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier one and total capital ratios. The other material risks identified by the Banking Group include business risk, pension risk, insurance risk, funds management risk, lapse risk, premises and equipment risk and capitalised origination fees risk.

The Banking Group's internal capital allocation for these other material risks is \$333 million (31/12/2012 \$326 million; 30/09/2013 \$343 million).

The Banking Group regularly reviews the methodologies used to calculate the economic capital allocated to other material risks. Updated capital methodologies (particularly relating to pension risk) were applied in November 2013 and prior periods restated accordingly.

### Residential mortgages by loan-to-valuation ratio ("LVR")

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

#### Unaudited 31/12/2013

\$ millions	On-balance sheet	Off-balance sheet	Total
<b>LVR range</b>			
0% - 59%	17,019	3,165	20,184
60% - 69%	8,246	825	9,071
70% - 79%	12,728	1,064	13,792
Less than 80%	37,993	5,054	43,047
80% - 89%	6,408	452	6,860
Over 90%	3,499	307	3,806
Total	47,900	5,813	53,713

## 11. Liquidity Portfolio

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

\$ millions	Unaudited 31/12/2013
Balances with central banks	1,703
Securities purchased under agreement to resell	236
Certificates of deposit	180
Government, local body stock and bonds	7,076
Government treasury bills	373
Other bonds	5,091
Total liquidity portfolio	14,659

## Notes to the Financial Statements

### 12. Concentrations of Credit Risk to Individual Counterparties

The Banking Group measures its concentration of credit risk in respect to bank counterparties on the basis of approved exposures, and in respect to non bank counterparties on the basis of limits.

For the three months ended 31 December 2013 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of the Banking Group's equity (as at the end of the period).

### 13. Fair Value of Financial Assets and Financial Liabilities

#### Comparison of fair values and carrying amounts

The following table shows the fair values and carrying amounts for financial assets and financial liabilities that are not carried at fair value and the carrying amount is not a reasonable approximation of fair value.

Unaudited \$ millions	31/12/2013	
	Carrying amount	Fair value
<b>Assets</b>		
Net loans and advances	91,219	91,233
<b>Liabilities</b>		
Deposits and other borrowings	81,074	81,083
Bonds and notes	15,381	15,584
Loan capital	1,134	1,049

#### Valuation hierarchy for financial instruments held at fair value

The Banking Group uses a valuation method within the following hierarchy to determine the carrying amount of assets and liabilities held at fair value, all of which are recurring fair value measurements:

##### "Level 1" - Quoted market price

Where an active market exists fair value is based on quoted market prices for identical financial instruments. The quoted market price is not adjusted for any potential impact that may be attributed to a large holding of the financial instrument.

##### "Level 2" - Valuation technique using observable inputs

In the event that there is no quoted market price for the instruments, fair values are based on present value estimates or other market accepted valuation techniques which include data, including interest and exchange rates, from observable markets wherever possible.

##### "Level 3" - Valuation technique with significant non observable inputs

The Banking Group holds units in an unlisted fund which does not trade in an active market. The fair value of these units is based on the estimated cashflows from the realisation of the underlying assets.

#### Valuation hierarchy

\$millions	Level 1	Level 2	Level 3	Total
<b>Unaudited 31/12/2013</b>				
Trading securities	11,386	112	-	11,498
Derivative financial instruments	12	7,687	-	7,699
Available-for-sale assets	1,113	-	2	1,115
Investments backing insurance policy liabilities	125	55	-	180
Total financial assets held at fair value	12,636	7,854	2	20,492
Due to other financial institutions	41	-	-	41
Deposits and other borrowings	-	6,567	-	6,567
Derivative financial instruments	4	7,833	-	7,837
Payables and other liabilities	160	-	-	160
Total financial liabilities held at fair value	205	14,400	-	14,605

## Notes to the Financial Statements

### 14. Insurance business

The Banking Group conducts insurance business through its subsidiaries OnePath Life (NZ) Limited and OnePath Insurance Services (NZ) Limited. The aggregate amount of insurance business in this group comprises assets totalling \$796 million (31/12/2012: \$785 million; 30/09/2013 \$779 million), which is 0.7% (31/12/2012: 0.6%; 30/09/2013 0.6%) of the total consolidated assets of the Banking Group.

### 15. Credit Related Commitments, Guarantees, Contingent Asset and Liabilities

	Face or contract value		
	Unaudited 31/12/2013	Unaudited 31/12/2012	Audited 30/09/2013
\$ millions			
<b>Credit related commitments</b>			
Commitments with certain drawdown due within one year	724	856	817
Commitments to provide financial services	25,268	25,014	24,446
Total credit related commitments	25,992	25,870	25,263
<b>Guarantees and contingent liabilities</b>			
Financial guarantees	982	696	997
Standby letters of credit	40	50	32
Transaction related contingent items	1,179	888	1,059
Trade related contingent liabilities	97	136	113
Total guarantees and contingent liabilities	2,298	1,770	2,201

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

#### Other contingent liabilities

In December 2013, the Commerce Commission advised the Bank that it intends to issue proceedings against the Bank (and two other banks) under the Fair Trading Act 1986 in relation to the marketing and sale of interest rate swaps to rural customers. The Commission has said that it aims to file proceedings in March 2014. The potential outcome of any proceedings which may be issued cannot be determined with any certainty at this stage.

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

The Banking Group has other contingent liabilities in respect of actual and possible claims and court proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made where deemed necessary.

#### Contingent asset

In December 2013, the Bank reached a conditional agreement with insurers to settle its claim in relation to the Bank's former involvement in the ING Diversified Yield Fund and the ING Regular Income Fund for payment of AUD85 million, subject to taxation.

### 16. Subsequent Events

On 14 February 2014 the Bank's Board resolved to pay a preference dividend of \$5 million on 3 March 2014 and to pay an ordinary dividend of \$540 million no later than 31 March 2014.

## Directors' Statement

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

- (i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013; and
- (ii) The Disclosure Statement is not false or misleading.

Over the three months ended 31 December 2013, after due enquiry, each Director believes that:

- (i) ANZ Bank New Zealand Limited has complied with all Conditions of Registration that applied during that period;
- (ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group;
- (iii) ANZ Bank New Zealand Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

**This Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on, 14 February 2014. On that date, the Directors of the Bank were:**

**Antony Carter**



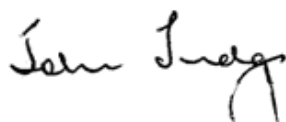
**Shayne Elliott**



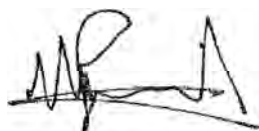
**David Hisco**



**John Judge**



**Michael Smith, OBE**



**Mark Verbiest**



**Joan Withers**







